

American Samoa

Air Transport Marketing Study

Phase Two Report

August 5, 2014



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World route development consultants

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Recommendations

The success of air service development for American Samoa will depend on individuals in the ASG taking responsibility for specific tasks and taking responsible action. Our recommendations for ASG action are summarized in this matrix, with more background provided in the next section. We stress the importance of placing responsibility for leading implementation with the Agency best able to provide the special skills required to deal with airlines and federal agencies relevant to that task, be it the Governor's Office, the Attorney General, Department of Port Administration (DPA), Department of Commerce (DOC) or the American Samoa Visitors Bureau (ASVB).



American Samoa Air Transport Study – Recommendations Summary			
Action Categories	Benefits & Risks	Agency Participation	Time Line
<p>1. Hawaiian Airlines</p> <p>Recommended Actions:</p> <ul style="list-style-type: none">a. Continue the dialogue and strengthen the relationshipb. Capitalize on HA willingness to work toward 3rd weekly flightc. Continue working with Hawaiian and Polynesian Airlines to develop APW-PPG connections on nights of Hawaiian service (see Recommendation 9)d. Offer incentives for discount fares and added frequencies	<ul style="list-style-type: none">◦ Improved frequency◦ Increased local traffic◦ Added discount fares◦ Better travel options for residents and visitors◦ Increased activity and revenues for the Airport◦ Risk: Incentives are not guaranteed to produce desired results◦ Risk: Connecting flights may be unprofitable	<ul style="list-style-type: none">◦ Governor’s office◦ DOC◦ DPA◦ Airport Division	Immediate and Continuing
<p>2. United Airlines and Alaska Airlines</p> <p>Recommended Actions:</p> <ul style="list-style-type: none">a. Continue dialogue to keep attention on PPG as a potential new route in the Pacificb. Include these airlines in development of incentive proposals	<ul style="list-style-type: none">◦ Lay groundwork for future service with right aircraft when airlines are ready◦ Risk: Could raise conflicts with improving Hawaiian relationship	<ul style="list-style-type: none">◦ Governor’s office◦ DOC	Ongoing



<p>3. Charter Proposals</p> <p>Recommended Actions: None Conduct careful due diligence on any group seeking assistance and on its plan. Consider likely reaction of Hawaiian Airlines</p>	<ul style="list-style-type: none">◦ Could give residents and visitors better travel options◦ Risk: Expensive failure is likely◦ Risk: Direct harm to ASG relationship with Hawaiian	<ul style="list-style-type: none">◦ Governor's Office◦ DOC◦ DPA	<p>The 2013 proposal has been withdrawn but another may be presented</p>
<p>4. Cabotage</p> <p>Recommended Actions: None Consider carefully the adverse effects of any legislative initiative to exempt American Samoa from US laws barring foreign airlines from carrying passengers and cargo on domestic itineraries.</p>	<ul style="list-style-type: none">◦ Benefits: Possible new services through PPG (airlines have shown no interest)◦ Risk: Harm to relationship with Hawaiian◦ Risk: Could affect other legislative priorities	<ul style="list-style-type: none">◦ Governor's Office◦ Congressman Faleomavaega's Office◦ DOC	<p>Recommendation is not to undertake a legislative initiative almost sure to fail</p>
<p>5. Support Tourism Development</p> <p>Recommended Actions: Review budget for Visitors Bureau and consider increasing it, recognizing that tourism infrastructure in the Territory is limited.</p> <p>Work on long-term plan for development of hotels and resort facilities to attract tourists.</p>	<ul style="list-style-type: none">◦ Benefits: The ASG's goal of increasing tourism is promoted by the efforts of the Visitors Bureau with a small staff and budget◦ Risks: A clear plan is needed to minimize risk of waste	<ul style="list-style-type: none">◦ Governor's office◦ DOC◦ American Samoa Visitors Bureau (ASVB)	<p>In the ASG's budget cycle, the ASVB should submit detailed plans for expanding activity and cost-effective uses for increased budget authority</p>



<p>6. Inter Island Airways</p> <p>ASG should do all it can to support Inter Island Airways, the only air carrier based in American Samoa</p> <p>Actions:</p> <p>a. Assign staff liaison to Improve communications with airline executives</p> <p>b. Explore what assistance ASG can offer to help Inter Island improve operating reliability and develop flight display and sales through the GDSs (global travel agency automation systems)</p>	<ul style="list-style-type: none">◦ Benefits: More assurance of service to Ta'u and Apia.◦ GDS presence will inform off-island travel sellers about the air links and encourage tourist visits to American Samoa◦ Risk: Increased revenues should more than cover the cost of GDS listing but are not guaranteed	<ul style="list-style-type: none">◦ Governor's Office◦ DOC◦ DPA◦ Airports Division	<p>Immediate and ongoing</p>
<p>7. Manu'a Airways</p> <p>Recommended Actions: Investigate startup delay and provide assistance as needed. If service is not running by October 15, urgently explore alternatives and seek another operator.</p>	<ul style="list-style-type: none">◦ Benefits: Air service for Ofu and improved service for Ta'u.◦ Risk: Failure to take action undermines the ASG's purpose for transferring its BN2 aircraft to the airline.	<ul style="list-style-type: none">◦ Governor's Office◦ DOC◦ DPA◦ Airports Division	<p>Immediate and ongoing</p>



<p>8. Polynesian Airlines</p> <p>Recommended Actions: Assign staff liaison to Improve communications with airline executives; encourage development of interline connections with Hawaiian Airlines. Work with Polynesian on effort to launch Tonga service.</p>	<ul style="list-style-type: none">◦ Benefits: Increased airport activity and improved travel choice for AS residents.◦ Risks: None	<ul style="list-style-type: none">◦ Governor's Office◦ DOC	Immediate and ongoing
<p>9. Pago Pago International Airport – Connecting Capability</p> <p>Recommended Actions:</p> <ul style="list-style-type: none">a. Set up procedures to transfer passengers and bags for direct connectsb. Develop plan for transit lounge	<ul style="list-style-type: none">◦ Benefit: Improve effectiveness of Hawaiian-Polynesian connecting programs◦ Risk: None – cost of transit lounge would be incurred only when commitments made for service	<ul style="list-style-type: none">◦ Governor's office◦ DOC◦ DPA◦ Airport Division	Should follow immediately after interline connecting arrangement between Hawaiian and Polynesian Airlines
<p>10. Fiji Airways and Pacific Sun</p> <p>Recommended Actions: Assign staff liaison to seek extension of Pacific Sun's turboprop services through Nuku'alofa and through Apia to Pago Pago.</p>	<ul style="list-style-type: none">◦ Benefits: Possible new service by growing airline within the region.◦ Risks: None	<ul style="list-style-type: none">◦ Governor's Office◦ DOC	Immediate and ongoing



<p>11. Pago Pago International Airport – Facilities Improvement</p> <p>The Airport needs both cosmetic and operational improvements. Some problems may be solved quickly without major expenditure.</p> <p>Recommended Actions: Consult with Hawaiian Airlines and other airport users early in the process for their advice on facilities needs and how to improve appearance and operating conditions cost effectively.</p>	<ul style="list-style-type: none">◦ Risk: Not doing enough produces passenger and airline dissatisfaction◦ Risk: Unwise spending would increase operating costs for current and potential service without proportionally improving appearance and operating conditions	<ul style="list-style-type: none">◦ Governor’s office◦ DOC◦ DPA◦ Airport Division	<p>Study should start as soon as possible</p>
<p>12. Passenger Processing by Immigration and Customs Officials</p> <p>US Customs and Border Protection (CBP) and providers of equipment have developed new technology to shorten arrival processing time. CBP relies heavily on airline passenger manifests to track arrivals, departures and over-stays.</p> <p>Recommended Actions: Consult with CBP and large airports on technology. Seek advisory assistance from CBP and explore FAA or DOT grant funding for needed equipment. Work on use of Hawaiian’s passenger manifests as a principal data source.</p>	<ul style="list-style-type: none">◦ Benefits: Reduced cost, improved database reliability, improved passenger experience, improved airline performance◦ Risks: None	<ul style="list-style-type: none">◦ Governor’s office◦ DOC◦ DPA◦ Airport Division	<p>Immediate start, recognizing that implementation will take time</p>



<p>13. Visa and Entry Permit Requirements</p> <p>Recommended Actions:</p> <ul style="list-style-type: none">a. Expand visa on arrival to most countries; expand list of visa exemption countriesb. Exempt holders of US green cards or visasc. Ease entry permits for citizens of Samoa – enforce overstay controls directlyd. Continue work with Samoa on mutual relaxation of entry restrictions and reduction of feese. Establish transit-without-visa for passengers on Apia flights and future Tonga and Fiji flights continuing to and from the US	<ul style="list-style-type: none">◦ Benefits: Increased travel and improved impression on visitors and Samoan neighbors◦ Costs: Some reduction in fee revenues◦ Risks: Overstay risks would be little changed and resources could be shifted to other enforcement mechanisms; negotiations with Samoa may not succeed.	<ul style="list-style-type: none">◦ Governor's Office◦ Attorney General's Office	<p>Urgent and immediate start for expedited actions</p>
<p>14. Department of Port Administration</p> <p>Recommended Actions:</p> <ul style="list-style-type: none">a. Continue work with Samoa on mutual relaxation of entry restrictions and reduction of feesb. Undertake urgent study of airport management. Demand improvement.c. Study conversion of the Department of Port Administration to an Authority with appointed commissioners and independent budget.	<ul style="list-style-type: none">◦ Study of airport management might not be implemented.◦ Study of independence has no risk but it should address both advantages and risks. Better management is badly needed.	<ul style="list-style-type: none">◦ Governor's Office◦ DPA	<p>Management improvement need is urgent. Conversion to Authority is not urgent.</p>



Executive Summary

Phase Two of the Air Transport Marketing Study has been the development and implementation of plans for bringing about air service improvement and removing impediments to air service for American Samoa. Work on Phase Two included extensive interaction with the airlines serving American Samoa and a large number of other airlines identified as prospects for service within the next few years. It followed Phase One, which developed and organized air transport and broader economic and demographic information and data for American Samoa, describing both the current situation and the history.

Acknowledgements

Many officials of the American Samoa Government and other people involved in American Samoa air transportation and related activities have contributed significantly to this Study. We thank all of them for graciously giving time and attention to the Study and support for its objective: Improving air service for American Samoa.

Special thanks go to the DOC management and staff who worked with us from start to finish. Atuatasi Lelei Peau (Project Manager), Director Keniseli Lafaele, Milo Niuelua, Lasiandra Hall, Ma'u Alipate, Leifiloa Tanoi and Reinette Thompson. Thanks to Congressman Eni Faleomavaega, Vincent Kruse, Jason Prichard, Debbie Suhren, William Sword, Sione Kava and Fatu Tielu; also to Barney Sene, who reviewed and commented on several report drafts, and to many, many others.

Background for Recommendations

This section includes expanded background information for the action items covered in the Recommendations Summary matrix shown above.

Hawaiian Airlines

Hawaiian Airlines is best positioned to add flights and reduce airfares for travel between Pago Pago and Honolulu with connections to the Mainland and Asia. The ASG has

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improved its relationship with Hawaiian but must take practical steps that will be good for both the airline and American Samoa. The recommended next steps should be:

1. Continue the dialogue with Hawaiian Airlines and further strengthen the relationship that developed through a series of meetings and other communications in the past year.
2. Decide what resources ASG is willing and able to provide as incentives for Hawaiian increasing the number of PPG flights and offering more promotional fares.
3. Facilitate connections at Pago Pago International Airport based initially on the proposal for Polynesian Airlines to operate PPG flights from Apia Faleolo (APW) on the nights when Hawaiian comes in, timed to connect in both directions.

United Airlines and Alaska Airlines

Both of these airlines have responded favorably but not decisively to the possibility of launching Honolulu-Pago Pago service with B737-800 aircraft, but neither wants to consider it seriously for startup before 2016 or 2017. ASG officials have been introduced to planning staff of United and Alaska and should maintain dialogues with them, making sure that American Samoa remains on their lists of potential new routes in the Pacific.

Incentives for UA or AS to launch PPG service are not an issue now, because both airlines have larger strategic factors to solve before it becomes a real possibility. Nonetheless, the ASG should decide what amount of money or the equivalent in waivers of fees and charges it will be prepared someday to commit. With two weekly roundtrip flights representing about \$10 million of annual cost and revenue, an incentive proposal would be more to get attention from the airline decision makers than to materially change the economics of the route.

Supporting Charter Proposals

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The ASG was approached in 2013 for support of a Honolulu charter program and may receive similar requests in the future. In considering such support, the ASG should recognize Hawaiian Airlines is likely to view it negatively. Two factors would determine how strongly Hawaiian might object.

The first factor is the scale of the charter program and level of ASG support (larger scale and greater support create more problems with HA). Second is what the ASG might at the same time offer Hawaiian for fairness and to achieve the same results. We recommend that the ASG first consult with Hawaiian Airlines as described above about what support it might require to expand its flight schedules and offer lower fares on the HNL-PPG route.

We recommend that the ASG consider providing support to charter promoters only after it makes every effort to work with Hawaiian Airlines for satisfactory expansion of PPG air service and conducts careful due diligence on the program sponsor and plan.

Cabotage

The ASG has long had the objective of lifting the unfortunate Cabotage restriction that prevents foreign airlines from carrying domestic passengers on routes that include PPG-HNL, PPG-LAX or even PPG-FAQ and PPG-OFU.

Samoa Air requested and received a Cabotage exemption but it was so limited as to be economically useless, allowing transportation only for medical emergencies and good for only 30 days at a time. Samoa Air never used the exemption and allowed it to lapse without requesting renewal. Real relief for American Samoa is not within the authority of the USDOT and would require legislative action.

Congressman Eni Faleomavaega has asserted strongly that seeking such legislative action is not practical. We have found that view supported by USDOT officials and aviation lawyers in Washington who handle regulatory matters. Further, the airlines we have

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approached have shown no interest in Cabotage service, including Fiji Airways and Air New Zealand, which are best positioned for such service.

Hawaiian Airlines would vehemently oppose any Cabotage relief and the effort would sour the ASG's important relationship with Hawaiian. We recommend that the ASG not seek legislative action on this contentious and sensitive issue with no real chance for success.

Supporting Tourism Development

The ASG has identified tourism as an important growth sector. Tourism infrastructure is limited, however, and for the near future generally needs promotion as a niche destination appealing to visitors interested in the Sanctuaries, National Parks and unspoiled terrain of the islands. Plush beach resorts attract large numbers of visitors but are not yet developed in American Samoa.

The American Samoa Visitors Bureau has helped to develop cruise ship visits and sees potential for further growth in that activity. It also is working with Air New Zealand and other airlines to sell packages linked to stays in Samoa, which attracts visitors with more advanced tourism infrastructure.

The Visitors Bureau appears to have done well with a limited budget, which should be reviewed for possible increase. Meetings at the 2013 Routes conference provided international airline contacts that can grow into programs like the Air New Zealand add-on packages.

The ASG appears willing to support the development of hotels and other tourism facilities, but major projects are difficult and take years to move forward. Smaller projects may produce results more quickly.

Expanded Vision

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Appendix A to this report contains a broad discussion of tourism development as it has been accomplished through long term, large scale effort in various places around the world. The range of air service opportunities for American Samoa would expand along with tourism and the presence of resort operators motivated to attract visitors who necessarily would arrive by air.

Inter Island Airways and Manu'a Airways

Inter Island Airways (American Samoa) has serious problems with an effective fleet of just one Dornier 228 aircraft. The aircraft was out of service for about four weeks in February-March, leaving Apia service to Polynesian Airlines and leaving Ta'u with no service. The Do 228 was down again in late July with no indication of a projected date to resume service.

Inter Island Airways has indicated consideration of new Pago Pago routes and has repeatedly pushed the possible start dates further into the future. As of August 1, 2014, its website states that it is exploring service to Tonga (Vava'u and Nuku'alofa) and Niue in December 2014. Inter Island has not operated revenue service since 2012 with the Dornier 328 aircraft it would use for these longer routes.

The ASG should ask what it can do to help Inter Island Airways with the startup of new routes if those plans are serious. The airline may need arrangements involving the FAA, the US Department of State, the Government of Tonga and various airports, ground handling companies, maintenance providers, travel agents, banks and other service providers at the destinations.

Inter Island Airways may also want to carry local traffic between Vava'u and Nuku'alofa and to work with RealTonga on connections and sales. If so, the ASG could offer help to facilitate development of that relationship through the Government of Tonga.

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Inter Island is starting also a new brand, Manu’a Airways, using the 9-passenger BN2 aircraft transferred from the ASG pursuant to a July 2013 Memorandum of Understanding (MOU). The Inter Island website as of August 1, 2014 showed a Mid-October 2014 start, subject to completion of maintenance on the aircraft and FAA inspection. Should there be further delay, the ASG should provide resources needed to help get Manu’a Airways started or devise an alternative plan for service to Ofu.

We were successful in alerting the Department of Port Administration to the unfairness of the landing fee structure, which charged Inter Island Airways three times as much as Polynesian Airlines for each landing, though their aircraft carry similar loads. The changes implemented by the Department will reduce charges for Inter Island Airways by around \$25,000 per year and add about half that amount to charges for Polynesian Airlines.

No ASG action is needed in regard to plans for Inter Island Airways (Fiji), which is delayed until at least November 2014. The plan for the Fiji airline includes a reservations system and internet booking functionality with the same system to be used by Manu’a Airways and eventually by Inter Island (American Samoa). That capability is the key to opening PPG flights for customers and travel agents outside the Territory and the region. ASG should provide resources to get an automated booking system and GDS connectivity for PPG services.

Connecting Passengers through Pago Pago International Airport

Increased passenger volumes between Pago Pago and Apia will strengthen the airlines, which will generate increased revenue and be able to improve their services. Setting up a transfer capability at the airport is discussed above as a way to enable Hawaiian Airlines and Polynesian to connect Apia passengers through Pago Pago more easily.

Flights to and from other island nations in the region might be able to use the transfer capability if their schedules meet the Honolulu flights, but they will need provisions as well

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for 72-hour or 96-hour stopover transit without visa. This process is common for connecting airports around the world and particularly needed in Pago Pago because of limited schedules.

Visa and Entry Permit Requirements

American Samoa requires citizens of Samoa to obtain entry permits in advance of travel at a cost of \$10 for up to 14 days or \$40 for up to 30 days. Proof of return or onward travel is also required. Samoa imposes similar visa requirements on Nationals residing in American Samoa and collects a \$20 departure fee for all travelers using its airports unless they are in country less than 24 hours.

American Samoa can generate a lot more travel to and from Samoa if it allows visitors to obtain entry permits on arrival and negotiates similar liberalization for American Samoans visiting Samoa. The current onerous process for entry to American Samoa is not the solution to overstay problems, which can be managed directly by monitoring people in the Territory. The ASG has opened negotiations with the Government of Samoa to reduce or eliminate fees and should persist to bring that process to a successful conclusion.

Entry should be eased also for visitors from other countries. American Samoa allows entry for up to 30 days for citizens of Canada or any of the 37 countries that participate in the US Visa Waiver Program. Visitors from other countries require visas obtained in advance, which is difficult or impossible in many places. China, Indonesia, Malaysia and the Philippines are among the Asia-Pacific countries not on the visa waiver list along with Russia and all of South America.

Citizens of those countries are not admitted without visas. American Samoa could make visiting much easier if it 1) allowed any holder of a US green card or current visa to enter for up to 30 days, subject to the same requirements as visitors from visa waiver countries and 2) allowed other visitors from most countries to obtain similar tourist visas on arrival.

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Airport Authority

Pago Pago International Airport needs improvement in appearance and functional infrastructure to give passengers a good first impression on arrival and a good last impression on departure and to improve the operating environment for Hawaiian Airlines. The Airport clearly needs repair and improvement but any project must be cost effective.

Hawaiian Airlines reports that the layout of the ramp and passenger pathways near the terminal slows delivery of bags and that lighting needs improvement. The inside of the terminal is unattractive and, for Hawaiian's arrivals and departures, it's very crowded.

The ASG's Department of Port Administration operates the Airports (Fitiuta and Ofu as well as Pago Pago International Airport) and the Seaport. As a Department, it is subject to budgetary control by the ASG with any surplus flowing to or deficit covered by the General Fund.

Conversion of the Department to an independent Authority has been suggested. It would be separate from the ASG but administered by a commission appointed by the Governor and confirmed by the Fono. Advocates assert that independence would protect the Port Authority from diversion of airport real estate revenues to other ASG purposes and would increase its capacity to sell bonds for needed capital projects. We are hesitant to recommend this course of action. Diversion of revenues is an issue that should be addressed directly and could continue regardless of the governing structure. Revenues of the airports from concessions and aviation activities may be insufficient to cover the expenses of operations and maintenance in the absence of other support.

Pago Pago service appears to be very profitable for Hawaiian Airlines, which operates a substantial hub at Honolulu and takes in revenue not only for local PPG-HNL travel but for beyond sectors (LAX, LAS, etc.) as well. Hawaiian's B767-300ER aircraft is larger than

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optimal for a market the size of HNL-PPG, but it's the smallest aircraft with sufficient range in Hawaiian's fleet.

The Study has included meetings with Hawaiian and ongoing dialogue about the needs of the market and plans to develop traffic and improve service. Hawaiian in 2017 will start operating Airbus 321neo (New Engine Option) narrowbody aircraft carrying about 190 seats. The new A321 model will be more far more efficient than the B767 for PPG and most of Hawaiian's routes Mainland routes and will effectively facilitate increased schedule frequency.

The B737-800 aircraft that Fiji Airways operates on the Apia-Honolulu route is a good choice for schedule frequency because of its moderate size and good operating efficiency. United Airlines and Alaska Airlines, which serve Honolulu with B737-800s and could connect online to multiple Mainland destinations, will be attractive competitors for Hawaiian if one or the other can be persuaded to enter the market. Both carriers have ordered the B737MAX, Boeing's competitor for the Airbus NEO family, but deliveries will not begin for several years.

Delta Air Lines and American Airlines similarly operate multiple Honolulu routes, including some with narrowbody B757 aircraft that could be used for Pago Pago, though the B737-800 is considerably more efficient. None of the major US airlines had considered PPG in recent years until we approached them and continued dialogue is needed because they will not easily or immediately decide to start service.

Also of concern, particularly for people in the travel industry who want to expand the market, is the impact of immigration laws and airport processing by ASG Immigration. Processing at PPG has been improved following an initiative in 2013 by the new Governor but more can be done. Ideas on Immigration policy and processes are described later in this Phase Two Report.

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Security clearance, handled by the Federal TSA for outbound Honolulu flights, is slow and can be improved by making small changes in equipment placement and line management.

Polynesian Airlines serves the PPG-Apia market, mostly through close-in Fagali'i Airport (FGI), which has no runway lights and is therefore limited to daytime operations. Polynesian's technical base is at Faleolo International (APW), where it operates a few night flights on peak days. The Government of Samoa owns Fagali'i Airport but has given control to Polynesian Airlines, which appears to effectively block competitors from using the airport.

Inter Island Airways (American Samoa) uses APW for all of its Apia flights. The Dornier 228 aircraft is not suited to FGI's short, 2,198-foot runway or for that matter the short runway at the airport on Ofu, Manu'a Islands. The American Samoa Government (ASG) has transferred its 9-passenger Britten Norman Islander (BN2) aircraft to Inter Island Airways for service with the dba Manu'a Airways. That arrangement will improve Ofu service and provide backup for Inter Island's Apia Faleolo and Ta'u Fitiuta services, but has not started in more than a year after signing of the MOU for transfer of the aircraft. The airline's website (www.manuaair.com) now shows the service as expected to start in Mid-October 2014, "pending completion of FAA certification of aircraft to be used on designated route".

Neither Polynesian Airlines nor Inter Island Airways has its flights displayed in the Global Distribution Systems that travel agents around the world use for automated reservations and ticketing. Similarly, neither has an interline agreement with Hawaiian Airlines or the long-haul airlines serving APW. American Samoa would be much better served if one or both short-haul airlines could improve connectivity with the long-haul airlines and the worldwide sales networks.

Another important issue for many is American Samoa's status as a US Territory, which makes PPG-HNL a domestic sector closed to sale by foreign airlines. The important impact

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of these Cabotage restrictions is that foreign airlines such as Fiji Airways or Air New Zealand cannot legally sell domestic transportation between PPG and Honolulu, Los Angeles or any other U.S. point.

The Cabotage restriction unfortunately has strong support from large airlines and labor unions and is not about to be weakened even for American Samoa, remote from the Mainland. Codeshare and cargo transfer ideas have been firmly rejected by Congress except for the cargo transfer exception passed by the late Senator Stevens, allowing foreign airlines to exchange international shipments at Alaska airports en route to the lower-48.

PPG's Manu'a sectors are domestic and similarly restricted by the Cabotage law, but the DOT and FAA want to be accommodating because the markets are so tiny and American Samoa is so far from other US Territories.

Air New Zealand (NZ) from Auckland AKL serves Apia. Samoa has historical, cultural and commercial connections with New Zealand along with more population and a more established tourism infrastructure than American Samoa. ASM met with NZ to discuss the possibility of serving PPG by extending its Tonga Nuku'alofa TBU service once or twice a week.

So far, Air New Zealand has not indicated interest in the AKL-TBU-PPG concept but ASG should continue to pursue the discussion.

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Task 5 and Task 6: Approaches to Expanding Air Services and Recommended Strategies to Provide Air Transport Services Capacity Needs

The American Samoa Government has undertaken considerable efforts to improve air service, which is critical for 21st Century commerce in an island setting. Two or seasonally three weekly combination (passenger and belly cargo) flights to Honolulu and one weekly B727 freighter flight do not constitute sufficient access to the mainline air transportation system of the United States and the world beyond.

The laborious process involving small turboprop service to Apia Faleolo International Airport for flights to South Pacific destinations represents a poor link to the South Pacific region and Australasia made even more difficult by the fact they are not included in the global reservations networks.

Air service development begins with analysis of the situation, which was begun in Phase One of this Study. That analysis provides the factual basis for identifying which target airlines might be prospects for adding service to Pago Pago and for making the case for added service. The next step is dialogue with the planning staff at selected target airlines to provide supporting arguments for new service with information specific to the target airline and route.

American Samoa's air service and strategies for improvement will be discussed in four parts:

1. US domestic services: Long haul routes – Honolulu and the Mainland
2. Short haul services -- Manu'a and Samoa
3. Intermediate Haul Routes – Island Nations (Tonga, Fiji, etc.)
4. South Pacific Intermediate haul routes – New Zealand and Australia

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1. Honolulu and the Mainland

1.1. The US-American Samoa Market

Honolulu has long been American Samoa's largest single destination and preeminent gateway to the Mainland. It is the closest major airport in the direction of North America and a good connecting hub for travel between Pago Pago and the Continental US as well as Japan and Korea. Honolulu has nonstop service to all the significant West Coast cities as well as Las Vegas, Phoenix, Salt Lake City and the important interior airline hubs.

Southern California is the home of the largest population originating from both American Samoa and Samoa, who are combined in the Census tabulation of population origins.

Table 1 Top Origin and Destination (O&D) Markets from PPG – YE March 2014

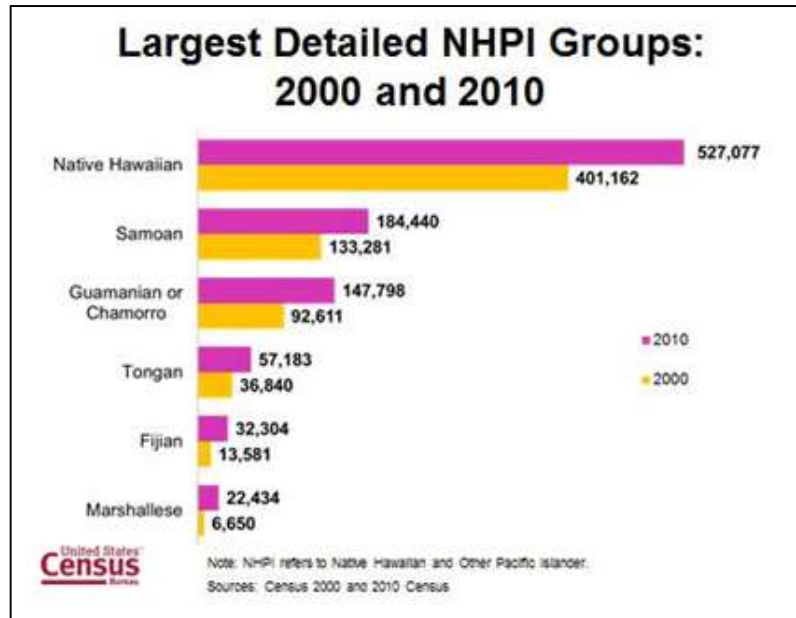
Destination	O&D Passengers
Hawaii	27,820
Los Angeles	3,820
Seattle	2,570
San Francisco Bay Area	2,180
San Diego	1,320
Las Vegas	1,130
Portland OR	650
Phoenix	580
Sacramento	400
Anchorage & Fairbanks	320
Other	3,230
Total	44,020

Source: US DOT Database OD1B

Note: Double ticketing produces overstated volume for HNL and understatement for Mainland airports.

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Figure 1 Largest Detailed NHPI Groups in 2000 and 2012



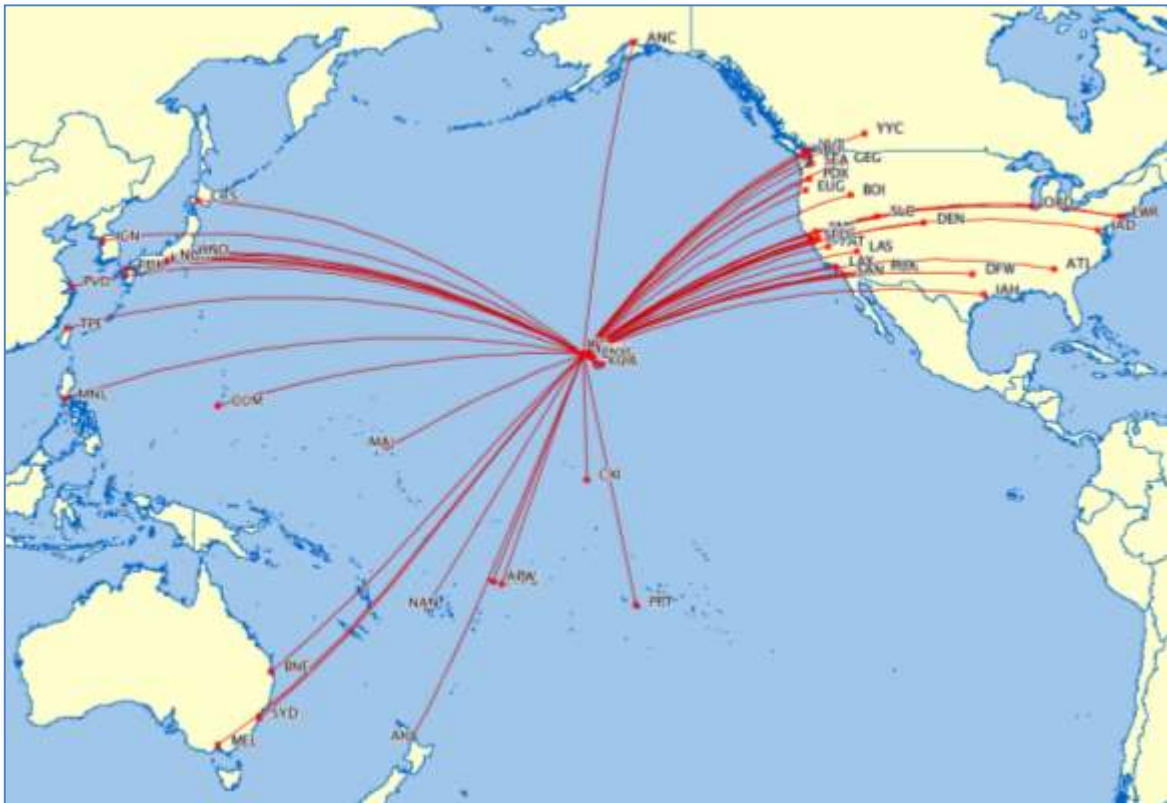
Source: US Census Bureau

Note: NHPI – Native Hawaiian and other Pacific Islanders

Samoan Americans are concentrated in California (33%), Hawaii (20%) and Washington (10%). It is not surprising, then, that Pago Pago's largest Mainland origin and destination markets include Los Angeles, Seattle, San Francisco and Seattle. The USDOT's PPG-Mainland market numbers are understated because passengers who buy separate tickets (e.g., LAX-HNL and HNL-PPG) are reported as PPG-Honolulu passengers, inflating the HNL total and undercounting LAX.

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Figure 2 Honolulu Nonstop Route Network



Source: SRS Analyzer, Feb 2013

2. Hawaiian Airlines and Competitors in the US Airline Industry

Hawaiian Airlines (HA) is the seventh largest US passenger airline. It dominates the Hawaii interisland markets and operates the most seats in Honolulu (HNL) – Mainland markets. HA flies HNL-PPG service twice weekly, with an extra weekly trip in summer and a few added flights during the Christmas Holidays. The Pago Pago route appears to be very profitable for Hawaiian, which has limited incentive to increase schedules or reduce fares.

Other important Mainland-Hawaii operators include United Airlines, Delta Airlines and American Airlines, the three largest US passenger air carriers, plus Alaska Airlines. Allegiant Air operates a few Hawaii flights and Southwest, JetBlue, Frontier and Spirit have none.

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American Airlines, after more than two years in bankruptcy, emerged last year from Chapter 11 protection and merged with US Airways to form the world’s largest airline.

Table 2 Top US Passenger Airlines by Operating Revenue – YE March 2014

Rank	Carrier	Operating Revenue (Millions)
1	American Airlines + US Airways	\$41,206
2	United Airlines	\$38,260
3	Delta Air Lines	\$38,237
4	Southwest/Air Tran	\$17,781
5	JetBlue	\$5,492
6	Alaska Airlines	\$5,241
7	Hawaiian Airlines	\$2,190
8	Spirit Airlines	\$1,722
9	Virgin America	\$1,437
10	Frontier Airlines	\$1,366
11	Allegiant Travel	\$988

Source: USDOT Form 41 Airline Financial Report P-1.2

2.1. *Hawaiian Airlines*

Hawaiian Airlines flies HNL-PPG service twice weekly, with an extra weekly trip in summer and some added flights during the Christmas Holidays. It has settled on a Monday-Friday schedule with the extra flight on Wednesdays when it operates.

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Table 3 Pago Pago-Honolulu Passengers, Seats and Passenger Load Factor (PLF)

Year	Passengers	Seats	PLF
2000	47,906	70,450	68%
2001	44,891	72,416	62%
2002	50,290	74,520	67%
2003	39,215	56,306	70%
2004	54,261	88,406	61%
2005	48,748	64,388	76%
2006	46,687	61,664	76%
2007	47,081	64,024	74%
2008	44,926	62,848	71%
2009	42,736	64,314	66%
2010	43,518	63,890	68%
2011	41,714	62,258	67%
2012	44,712	62,269	73%
2013	41,689	61,236	68%

Source: US DOT Database T100

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Table 4 Pago Pago-Honolulu Average Passenger Fares

Average Fare (USD)			
Year	Hawaiian Airlines	Aloha Airlines	Total
2000	293.45		293.45
2001	349.96		349.96
2002	320.37		320.37
2003	385.62	438.72	386.71
2004	383.57	385.00	384.45
2005	440.79	473.75	441.86
2006	454.98		454.98
2007	454.80		454.80
2008	485.73		485.73
2009	481.09		481.09
2010	468.95		468.95
2011	499.22		499.22
2012	501.60		501.60
2013	524.64		524.64
YE 3-14	535.13		535.14

Source: US DOT Database OD1B. Aloha operated only a few flights in 2003 and 2005, but flew a full schedule throughout 2004. The average PPG-HNL fare in 2014Q1 was up 9.7% from 2013Q1 as the reported PPG-HNL passenger volume rose.

Hawaiian's long-haul fleet, composed of large, widebody B767-300ER and A330-200 aircraft, makes an increase in schedule frequency difficult. Growing from the current schedule of about 120 annual flights to three weekly flights year round would increase capacity (scheduled seats) by more than 40%.

Hawaiian has served PPG-HNL since 1985 and successfully fought off a challenge from Aloha Airlines (AQ) in 2004. Aloha flew PPG service with 122-seat B737-700 aircraft, not a

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good choice for a route at the outer limit of the operating range for that aircraft at the time.

The -700 is almost as costly to operate as the larger -800 with about 20% fewer seats, making it uncompetitive. The -700 was also a poor choice for the HNL-Mainland routes where Aloha similarly was unable to compete with the larger and stronger Hawaiian Airlines and other major airlines.

HA overall is lagging the US airline industry in profitability but seems to be doing very well on the HNL-PPG route despite the premium cost of fuel at both airports and the inefficiency of operating just twice a week. FAA crew rest regulations require the airline either to overnight pilots in PPG or carry two extra pilots (“heavy crew”) for the two-person cockpit. The airline chooses the heavy crew rather than have pilots stay over in Pago Pago, where they would stay for three or four days and nights between flights.

On similar routes with daily service frequency or more, such as LAX-HNL, the airline can utilize its pilots more efficiently. Hawaiian has said that with year-round, three-per-week frequency, it could economically schedule crew rest in Pago Pago, which would provide some business for the local economy as well as improve operating efficiency.

Hawaiian has expressed concern about the high cost of recovery if an aircraft breaks down in PPG with a problem that is not readily repairable. That concern is real but not enough to offset the lucrative profitability of the operation. Modern airframes, engines and avionics are remarkably reliable and the ETOPS operating standards require particular attention to any expectation of a problem.

Our pro forma financial results for Hawaiian’s PPG-HNL service estimated total revenues for the year ended June 2013 at \$31 million with operating profit greater than 20%. The pro forma takes into account only the results on the nonstop segment. Hawaiian also benefited from an estimated 12,000 annual passengers and \$7 million of additional

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passenger-related revenue flowing to destinations on its network beyond Honolulu, including Hawaii inter-island routes as well as Mainland and international Asia-Pacific destinations.

For the same period, HA parent Hawaiian Holdings reported total revenues of \$2.1 billion, operating profit of \$135 million (7.8 % of revenues) and net income of \$58 million (3.2%). PPG is a small market for Hawaiian but very profitable. With adjustments for the network traffic flow contribution and the use of otherwise marginally productive aircraft time, PPG looks even better. The route could accurately be described as high margin, modest volume.

Although the schedule is inconvenient, Hawaiian's capacity on the PPG-HNL route is sufficient for much of the year. At times, however, the imbalance in demand sometimes limits seat availability in one direction even when passenger loads are relatively light in the other direction. The aggregate passenger load factor (PLF or seat occupancy) was just 67.0% for 2011, well below industry standards. Traffic recovery began toward the end of 2011 and continued into 2012.

The PLF for the full year 2013 was 68.1%, still not high enough to please airline planners but profitable on such a high-fare route. Growth in shipments of fresh tuna will supplement passenger revenues by increasing loads from PPG, which up to now has produced little outbound cargo. Hawaiian will then carry the premium Pacific fish to Japan and the Mainland as well as offloading in Hawaii.

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Table 5 Monthly Passengers on the PPG-HNL Sector

	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Annual</u>
2011	2,831	2,563	3,696	2,835	3,302	4,535	5,103	4,498	3,113	2,457	2,880	3,901	41,714
2012	3,336	2,394	3,478	3,526	3,447	5,335	5,322	5,507	2,708	2,906	3,144	3,609	44,712
2013	3,190	2,503	3,253	3,165	3,823	4,402	4,981	4,716	2,359	2,439	2,872	3,986	41,689
2014	3,145	2,395	3,533	3,377									

Part of the problem is that American Samoa's passenger volumes are held down by HA's limited schedules and high fares, much higher than fares on HNL-West Coast routes of the same distance. The average local PPG-HNL one-way fare in the year ended March 2014 was \$539 (USDOT Database OD1B), more than double the \$259 average one-way local fare on the 2,600-mile HNL-PDX (Portland, Oregon). Offering aggressive discounts on lower-occupancy flights would cost Hawaiian some of its high profit margin but some foregone revenues would be offset increasing passenger volume.

Hawaiian Airlines enjoys monopoly status on the PPG-HNL route and faces only limited competition from parallel weekly service by Fiji Airways from Apia's Faleolo International Airport (APW). Fiji's flag carrier operates through APW between Nadi (NAN) and Honolulu. FJ schedules its weekly APW departure at 17:25 on Friday afternoon (18:25 in Southern Summer), which corresponds to 17:25 Thursday afternoon in American Samoa. The B737-800 aircraft crosses the international dateline and arrives in HNL at 00:15 Friday morning. The return departs Honolulu at 01:15 Friday and arrives in Apia at 06:15 Saturday morning.

USDOT's T100 database shows a 29% PLF (just 48 passengers per flight) on the APW-HNL route for calendar year 2013. Discussion with FJ's Samoa manager indicates that the flight runs a much higher load factor so that the T100 numbers probably reflect just local APW-HNL passengers and not on-board totals.

Connecting from PPG through APW to HNL is difficult and expensive. Fiji Airways' economy fares are slightly lower than Hawaiian's but its business fares are higher. The 165-seat

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B737-800 aircraft are configured with just eight business class seats, which are shared between local and through passengers.

The appeal of FJ's service for American Samoa passengers is limited by the addition of the PPG-Apia fare, the need to make a separate reservation, the turboprop flight and lengthy connecting times or overnight stays. The revised schedule allows passengers to connect in both directions, however, without the need for an overnight stay in Apia.

Demand for air service is heavily influenced by the cost and convenience of travel in both short run and long run. Thus, a market that offers limited schedules and high fares will discourage travel and the effect will be greater the longer those conditions prevail. If potential passengers know they will never see an affordable fare, they organize alternative plans for travel elsewhere.

Hawaiian Airlines management has expressed willingness to work with the ASG on expanding traffic to the point where it supports a third weekly flight year round. When Hawaiian has new, smaller and more efficient Airbus 321NEO aircraft available for the Pago Pago route in 2017, three weekly flights will be routine, but that's a long time to wait.

The initial objective is a longer 3-per-week season in 2015 with the current B767 equipment. That means helping Hawaiian attract more PPG passengers and begin to connect passengers to and from Apia. Hawaiian is short on staff and its American Samoa service is not of sufficient magnitude to hold top of mind attention unless ASG keeps in touch.

The starting point would be identifying a target in terms of fares and number of additional weeks with three flights in 2015. Commitments could be based on revenues versus a benchmark based on previous experience. That would mean working with Hawaiian's pricing staff to devise restricted low fares with limited available inventory during the weeks of added flights and possibly in other off peak or shoulder periods when load factors have

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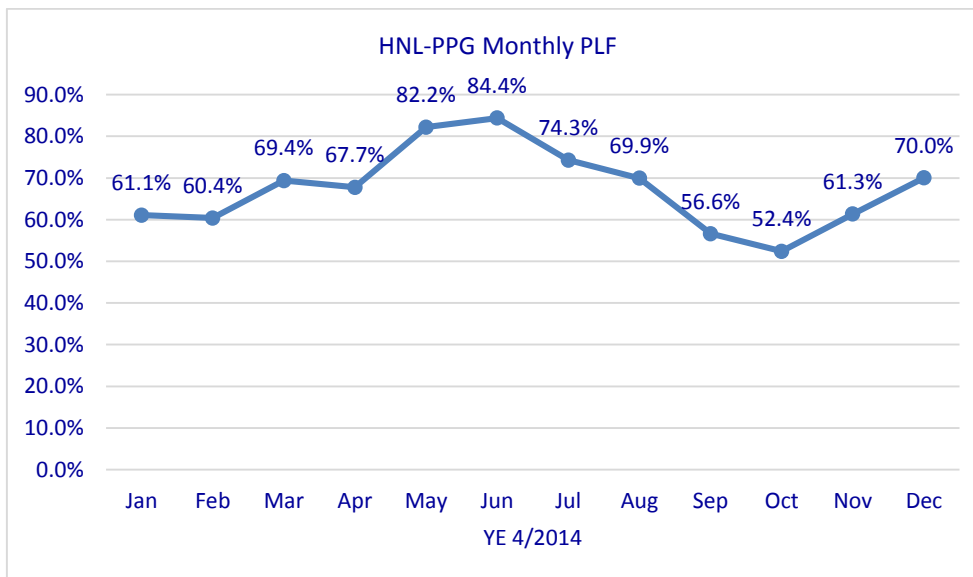
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historically been low. Day of week and directionality incentives could help HA better target the unused seats.

Announcements by the Governor would start a marketing campaign and the ASG might get local religious groups involved to assist in spreading the word on promotional programs to parts of the community potentially interested in such targeted fares. Hawaiian might be willing to work with the ASG also on cooperative advertising placement to sell the fares in both directions.

The third flight could operate in 2015 for two to four additional weeks at summer's start, late-May and early June, when load factors have been high on the 2/week service.

Figure 3 Seasonality on the PPG-HNL Route



Hawaiian's incremental cost for each round trip is about \$100,000, not counting fixed overhead and aircraft ownership cost. Incremental revenues would cover part or possibly all of the added cost and the value to the Territory and its people would be considerable. The ASG would want Hawaiian to put in place aggressive promotional fares for the added-

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flight weeks. Working out the dates for the third flight would be based on experience in May-June 2014 with help from Hawaiian's planning staff.

The ASG can reduce the empty-seat risk by facilitating connections between Hawaiian and Polynesian Airlines, which will increase traffic year round. Connections will require a transit lounge at the airport and rules changes to allow connecting passengers to bypass customs and immigration processing between flights. At the same time, the ASG needs to continue efforts to bring Hawaiian and Polynesian together in a marketing and sales arrangement to use the transit capability. The June replacement of Polynesian's CEO Fatu Tielu by Mr. Seiuli Alvin Tuala, who was serving on the staff of the American Samoa Attorney General, should improve progress on this project.

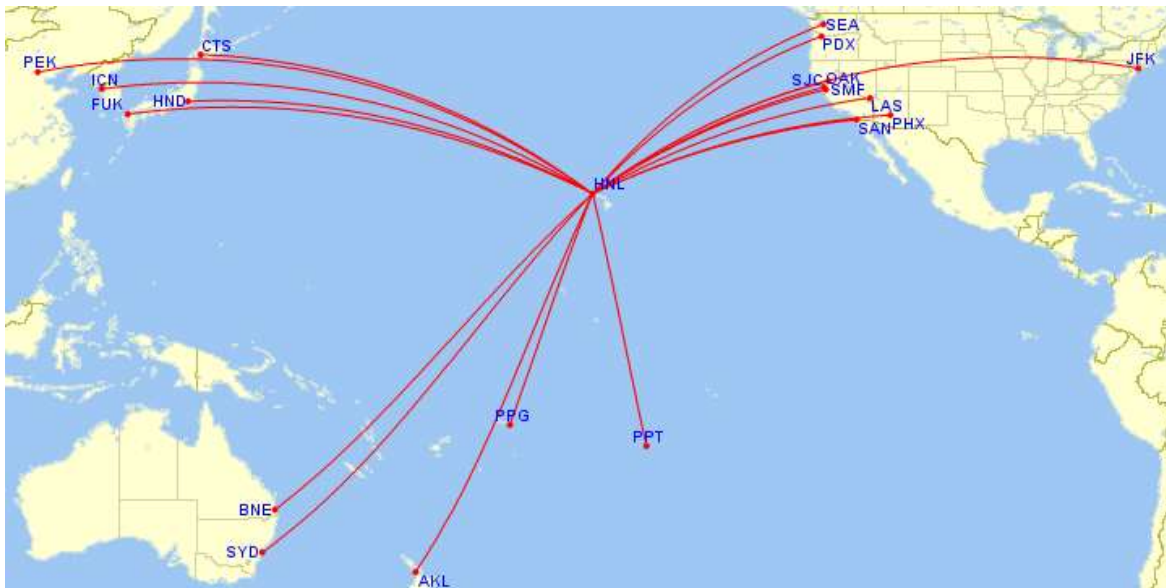
Hawaiian's long-haul fleet, composed of large widebody B767-300ER and A330-200 aircraft, makes the frequency increase difficult. An added weekly flight would increase capacity by more than 40%. HA serves PPG with Boeing 767-300 aircraft, which have substantial cargo capacity in addition to 252 seats. The B767 is the best HA fleet type for PPG, though it is relatively large. HA's other fleet types are the larger Airbus 330 and the smaller Boeing 717, which has only short-haul range. Hawaiian has announced plans to acquire a longer-haul narrow-body aircraft type, Airbus 321new, which will improve Pago Pago schedules but will not enter HA service until 2017.

Hawaiian is not inclined to sacrifice short-run profitability for longer-run growth in the American Samoa market but neither will it be driven away if the market becomes competitive. When Aloha Airlines entered the market in 2004, Hawaiian responded without extraordinary competitive measures and easily outlasted its smaller rival in PPG and other Pacific Island markets. With the efficient A321NEO aircraft coming into its fleet in 2017 and few other markets as well suited as PPG to its network, HA will continue normal operations for a considerable period unless a new entrant with obvious staying power flooded the market with seats.

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Hawaiian operates 27.1% of HNL long-haul seat departures and is one of several major airlines operating substantial Honolulu-Mainland service patterns. HA's HNL-Mainland seat share is 29.4% (June 2013 schedules). Delta, United and American all operate HNL flights from their Mainland hubs plus some West Coast gateways.

Figure 3 Honolulu Widebody Routes Operated by Hawaiian Airlines



Source: Hawaiian Airlines Website, July 2014

Hawaiian competes with the mega-carriers on Hawaii-Mainland and -Asia routes but also works with them to attract connecting passengers. HA's website features Delta Air Lines and offers frequent flyer mileage credit on American, United and others. That combination of cooperation with competition is common in the airline industry. None of these relationships includes codesharing or through fares and joint marketing, which could enhance passenger convenience between Pago Pago and the Mainland.

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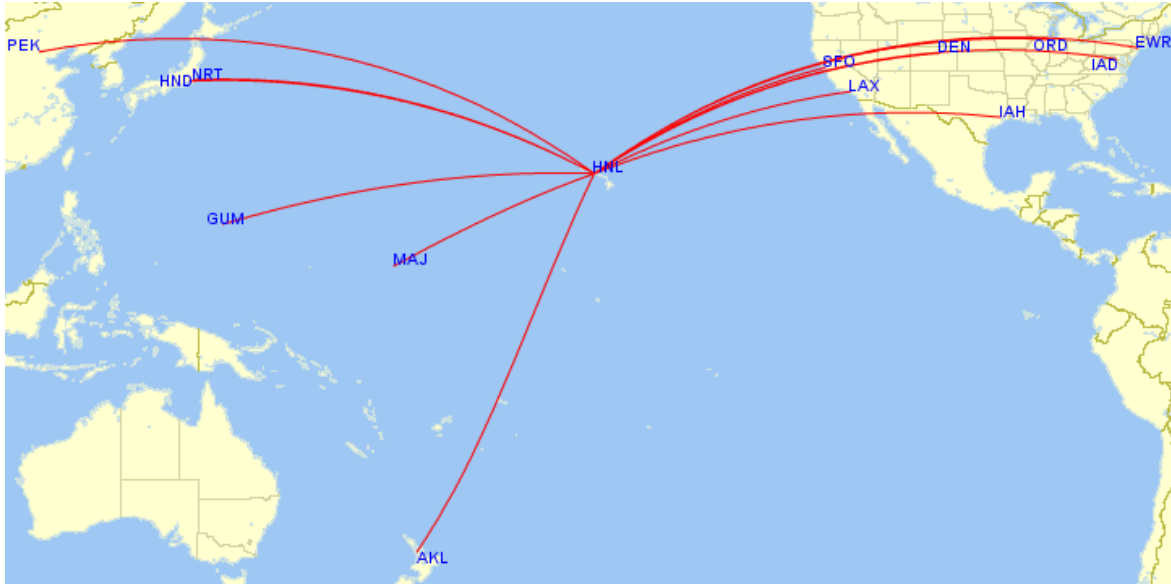
2.2. United Airlines

United Airlines is the second largest airline in the world by several measures and the second largest Honolulu-Mainland operator, with 28.2% of seat departures (Source: OAG Schedules iNET, June 2013). With the acquisition of Continental Airlines in 2010, United also took over Air Micronesia, the former Continental Airlines unit based in Guam. Air Micronesia was operationally merged into Continental and now is just a part of United's overall operation. United's seat share of HNL long-haul routes, including international as well as Mainland services, is 19.3%, second to Hawaiian's share.

United and the former Air Micronesia routes are important because of the long history of Continental Airlines in the Pacific and the availability of B737-800 aircraft at HNL for UA's HNL-West Coast and -Pacific operations. Except for interisland services, United has HNL connecting capability comparable to Hawaiian's, which would enable it to generate traffic from all directions. The smaller B737-800 aircraft would give United scheduling flexibility that Hawaiian lacks.

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Figure 4 United Airlines' Honolulu Network



Source: United Airlines Website, July 2014. ALK is codeshare operated by Air New Zealand, HND by ANA and PEK by Air China.

2.3. *Alaska Airlines*

A prospect for new entry into the Pago Pago market is Alaska Airlines (AS), the fourth largest Honolulu-Mainland operator with a 15.5% flight share but, flying smaller aircraft than its major competitors, an 11.1% seat share. Alaska is a very successful hub operator at Seattle and Portland, where it is the dominant carrier.

Alaska had no flights to Hawaii until October 2007 but has grown its operating scope rapidly. Alaska in June 2013 flew 165 weekly roundtrip flights with B737-800 aircraft between Hawaii and the Mainland, including 63 weekly frequencies between HNL and 7 West Coast airports.

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Figure 5 Alaska Airlines' Honolulu Network



Source: SRS Analyzer, Feb 2013

Alaska flies efficient, overwater-equipped B737-800 on all of its Hawaii services. That fleet already operating in HNL makes extending service to PPG easier for Alaska than for other airlines. Alaska's B737-800 aircraft are effective for the Hawaii routes and it is acquiring larger B737-900ERs that offer lower cost per seat with dual-class capacity for 181 passengers. Alaska's future fleet will feature B737 Max 8 and Max 9 aircraft with more advanced engines, airframes and avionics to improve range and operating efficiency.

In addition to its own online connections, Alaska enjoys codeshare and marketing relationships with several airlines, particularly Delta and American. Those partnerships could help generate passenger volumes through HNL and the West Coast to and from virtually the entire Mainland.

We met with Alaska Airlines and provided a presentation on American Samoa as a profitable destination for new service. Alaska's planning staff have expressed interest in

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American Samoa as a longer term possibility based on further development and maturity of the airline's Hawaii network.

Alaska's planners see a need to serve key Mainland markets Los Angeles (LAX) and Las Vegas in order to have an effective marketing presence for Hawaii-originating passengers. Those markets are very competitive and LAS is not within the efficient range of its current fleet. American Samoa should continue the dialogue with Alaska, which remains a possible PPG operator in 2015 or 2016.

2.4. Other U.S. Major Airlines

Delta Air Lines operates B757 aircraft along with wide-bodies on Honolulu-Mainland routes and is third largest with a 13% seat share. The Pacific is very important for DL, which would offer Japan connections for PPG passengers via HNL.

Delta is replacing some of its B757 fleet with efficient B737-900ER aircraft and has more than 70 B737-800 aircraft deployed on Mainland routes. It has no B737 operations to Hawaii and no services beyond Honolulu to Pacific Island destinations.

We contacted Delta's Pacific planning staff and provided a range of information on the American Samoa market. Delta so far has not shown interest in serving the Territory because it is looking at much larger Pacific routes where it can deploy widebody aircraft.

American Airlines also has B757 operations at Honolulu and a 10% HNL-Mainland seat share (14% including US Airways). American's also flies B737-800s with B737-900s on order but it has not operated B737 aircraft at Honolulu.

AA could connect American Samoa passenger through Honolulu to Japan and North Asia with its alliance and joint venture partner JAL. American has been completely preoccupied with bankruptcy reorganization efforts is now working hard on integration of the two

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airlines following its merger with US Airways. American Samoa should try to open a dialogue with American's planning staff in about six months.

Southwest Airlines is the world's third largest airline as measured by number of passengers and fifth largest by number of flights. It is taking delivery of new, overwater-equipped B737-800 aircraft that could fly efficiently in the PPG-HNL market. For several reasons, however, Southwest is not in a position right now for serious consideration of PPG service:

- Southwest has no flights yet to Hawaii, which it will need for West Coast connections to supplement local PPG-HNL traffic.
- Before it can start Hawaii flights, Southwest needs FAA certification for over-water operations, a process that it expects to complete in 2014. It will probably start serving Hawaii by 2015.
- Southwest is still working hard on the operational and cultural challenges of integrating AirTran Airways, which it acquired in 2011, and expects that process to continue through most of 2014.
- Southwest will need at least a year after it begins Hawaii service to build up enough of a Honolulu network to consider Pago Pago.

2.5. *Nonstop Los Angeles Service*

Travel between Pago Pago and the Mainland West Coast is even more expensive and inconvenient than PPG-HNL. Hawaiian's HNL flights offer few connections to the Mainland in less than 4 hours. Average one-way fares from PPG through HNL in 2012 were \$895 for Los Angeles International Airport (LAX), the most popular destination, and for other West Coast cities ranged between \$808 each way for Portland and \$1102 for San Diego.

The prospects for PPG-LAX nonstop service are more difficult than for attracting PPG-HNL competition. Even assuming there would be market stimulation if nonstop service were

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available, the PPG-LAX passenger numbers are modest for a long-haul, widebody route. The PPG-LAX range is relatively long at 4,781 miles and would require more than 9 hours flying time, versus 2,600 miles and about 5.5 hours for PPG-HNL. That length of flight requires an aircraft at least as large as the B767-300ER that Hawaiian uses for HNL-PPG, and crews would not be able to go directly back.

Most other long-range, widebody aircraft models operated in significant numbers by US airlines (A330, B747 and B777) are larger than the B767-300ER. Efficient B787-8s are about equal in size, but they are very expensive and not yet available in significant numbers. In a few years, 787s could make LAX- PPG nonstop service worth evaluating.

The US operators of B767-300s in scheduled service are mostly the mega-carriers, including the largest LAX carriers United, Delta and American. Some smaller charter airlines also operate B767-300s (Omni Air International, North American Airlines) and smaller B767-200s (Vision Airlines and Dynamic Aviation) for charters, which are discussed below. Hawaiian, with its lucrative position in the PPG market and its hub at HNL, has no interest in the Los Angeles nonstop route.

United, Delta and American have large LAX networks but they also are not interested right now in LAX-PPG nonstop. The crew rest problem for Honolulu-Pago Page service is even worse for LAX-PPG, where both pilots and flights attendants would need to lay over until the next flight, making weekly or even twice-weekly service inefficient. All of these mega-carriers are far more likely to consider American Samoa service via Honolulu rather than nonstop.

2.6. Charter Possibilities

We were in touch with Manumea Travel, a group based in Las Vegas that had asked the ASG to participate in its business as an investor. Manumea was working on development

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of a charter program between Los Angeles and Pago Pago via Honolulu to be flown with B737-800 aircraft. We provided a more detailed discussion of the Manumea situation in a separate document. In summary, the plan was flawed and the group lacked needed skills and resources.

HNL-PPG could be a seasonal charter opportunity based on strong demand fluctuations combined with the limited schedules and high fares of Hawaiian Airlines. Charter air services are sponsored by tour operators that generally are not aircraft operators themselves. The tour operators take the marketplace risks but contract with airlines for the flights (sometimes called “lift”).

The strong seasonality and competition from scheduled service make year round charter service extremely unlikely to succeed. In addition, there are few US airlines able to offer over-water (ETOPS) charter flights with B737-800 aircraft, which would be the right size aircraft. Sun Country Airlines, based in Minneapolis, operates both scheduled service and charters with B737-800s and Miami Air International operates B737-800s exclusively for charters.

As noted above, other airlines offer charter lift with B767-200 or B767-300 aircraft, but that equipment is considerably higher cost than the efficient B737-800.

B767s could operate nonstop Mainland-American Samoa flights but charter sales on those routes would face substantial marketplace challenges, including directional imbalance, strong seasonality and the likelihood of aggressive competition by Hawaiian Airlines selling tickets via Honolulu. Mainland nonstop charters would also face the same costly crew rest requirements affecting scheduled services.

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3. *Apia, Manu'a and Savai'i*

American Samoa depends on US-flag carrier Inter Island Airways (American Samoa) and Samoan national carrier Polynesian Airlines for service to Apia, the most important short-haul destination. Inter Island Airways also serves Ta'u in Manu'a. Startup carrier Samoa Air operated between Samoa and PPG for a few months last year with a 9-passenger aircraft but soon suspended service and subsequently shut down.

The two commuter carriers fly nine to ten round trips per average day with 19-seat turboprop aircraft between Pago Pago and the two Apia airports, Fagali'i-FGI and Faleolo International-APW. Recent data suggest 110 passengers a day each way with heavy seasonal variation and a significant directional imbalance on weekends, with more passengers departing from PPG on Fridays and more returning on Sundays. Midweek volumes are lower than weekend volumes. During Holiday periods as many as 20 trips may operate in a day, limited by the operational capabilities of the carriers rather than passenger demand.

Table 6 Pago Pago-Apia Passenger Services

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Flights	16,008	7,186	6,346	5,314	6,104	5,380	5,976	6,096	6,216	6,224	6,106
Passengers	138,068	96,707	85,990	74,370	81,202	73,161	80,536	78,762	80,531	80,964	81,774
Pax per Flt	8.6	13.5	13.6	14.0	13.3	13.6	13.5	12.9	13.0	13.0	13.4

Source: Statistical Yearbook, American Samoa Department of Commerce.
Includes both PPG-FGI and PPG-APW services.

From the perspective of air service market development for American Samoa, the absence of the Pago Pago-Apia market from the global distribution systems (GDSs) is an important shortcoming. Neither Polynesian Airlines nor Inter Island Airways (American Samoa) makes its seats available for automated travel agent sales, including online agencies such as Expedia and Travelocity as well as the local agencies. Neither is available for connecting

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sales with the long-haul carriers. In Pago Pago and Apia, both airlines sell by phone or through their websites with seat requests and email confirmations.

Reliability has also been a major problem, particularly for Inter Island Airways with just one operating aircraft. Polynesian has two aircraft but sometimes leaves bags behind because of the weight restriction on its operations **and has also experienced service outages.**

Polynesian Airlines

Polynesian Airlines (IATA Code PH) operates PPG-FGI service with 19-seat Twin Otter aircraft usually restricted to 16 seats for sale. FGI is just 12 minutes from downtown Apia. The airport has a short 2,198-foot (670 meter) runway with obstacles and can be flown only by Twin Otters or smaller aircraft. The airport is controlled by government-owned Polynesian Airlines and currently no other airline operates there, though Samoa Air tried FGI for a couple of months before suspending PPG service. FGI is preferred by travelers to and from Apia's center.

Polynesian Airlines has expressed an interest in considering operations through PPG to and from Tonga. The 364-mile flight to Vava'u would be long for the slow Twin Otter aircraft, almost two hours with no onboard lavatory. Nonetheless, it would be an improvement compared to alternative routings through Apia and Fiji.

In October 2013, Mr. Fatu Tielu, the CEO of Polynesian, announced his resignation but stayed in the job during the search for a replacement. In June 2014, Mr. Seiuli Alvin Tuala took over. He is a former aviation official of Samoa but most recently served on the Attorney General's staff in American Samoa. The DOC Director has reported that his contact with Mr. Tuala indicated a continuing interest in connecting at PPG with Hawaiian Airlines.

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One of Polynesian's aircraft skidded off the FGI runway on July 25. The Samoan Prime Minister announced however that Polynesian is getting a third Twin Otter aircraft in August and there have been reports of an ATR42 addition at a later date. The 46-seat ATR42 has sufficient range for nonstop Pago Pago-Nuku'alofa flights. ASG should inquire about Polynesian's plans and provide whatever assistance or persuasion is required to convince the airline to operate between Apia and Nuku'alofa with a stop in Pago.

Inter Island Airways (American Samoa)

Inter Island Airways (American Samoa) operates PPG-APW service with a 19-passenger Dornier 228 turboprop aircraft. The airline is able to use all 19 seats but sometimes leaves baggage behind. APW has a 10,000 foot runway and air service by Air New Zealand, Fiji Airways and Virgin Samoa as well as Inter Island Airways. APW is 45 minutes' drive from Downtown Apia but closer than FGI to the beach resorts and western Apia suburbs as well as the ferry terminal serving Savai'i, Samoa's Big Island.

Inter Island Airways has not been flying its 30-passenger Dornier 328 aircraft that cruises at more than 350 MPH and was popular with passengers. Inter Island Airways has reported that the FAA is comfortable with its operation of a regular schedule of charter flights sold through sister company Inter Island Vacations. As noted above, Inter Island has stated plans to operate the 328 on Tonga and Niue routes, but that seems highly unlikely.

The landing fees charged to Inter Island Airways were three times as much as Polynesian Airlines was paying for each landing, though their aircraft carry similar loads. The anomaly was caused by an arbitrary aircraft weight limit for application of a low flat rate instead of the normal weight-based charge. We alerted the Department of Port Administration to the unfairness. Changes implemented by the Department reduced fees by around \$25,000 per year for Inter Island Airways and adds about half that amount to fees for Polynesian Airlines.

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Manu’a Airways

Manu’a Airways is a brand name for planned operations by Inter Island Airways (American Samoa) using the 9-passenger BN2 aircraft transferred from the ASG. Manu’a Airways flights were supposed to start last year but that schedule has been delayed until at least October 15, 2014. Sales initially are to go through Inter Island Vacations and later through a new web-based reservations and booking engine. FAA Part 135 regulations allow Inter Island to sell direct to the public for scheduled services on 9-seat or smaller aircraft.

The Manu’a Airways services will connect PPG to Ofu Airport (OFU) and Fitiuta Airport (FAQ). We suggest that they operate PPG-OFU-FAQ and vice versa rather than as PPG-OFU turnarounds, so that they can carry PPG-FAQ through passengers along with PPG-OFU and (a very few) OFU-FAQ local passengers.

The plan for Manu’a Airways includes automated reservations capability and connectivity with the GDS travel agency automation networks. Inter Island Airways (American Samoa) through its Inter Island Vacations affiliate would move Apia and Ta’u flights to the new system within a few months. The online reservations functionality will be able to handle immediate passenger bookings directly as well as through the reservations call center or travel agents.

The reservations system has been delayed along with the Manu’a services and may not be going forward. It would be an important positive step for opening PPG flights to customers and travel agents outside the Territory and the region. ASG should support the move to online booking capability for PPG services and if necessary provide resources to get it going.

Local passengers and local agents familiar with American Samoa and Samoa air service are accustomed to booking by phone or email and most are reasonably comfortable with it. Passengers and agents elsewhere are mostly unaware of the PPG-Apia links. Just as

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important, travel from HNL to Apia via PPG or from PPG via APW to other South Pacific destinations requires separate ticketing. Sales departments of Hawaiian Airlines, Virgin Samoa, Air New Zealand and Fiji Airways are unable to sell PPG-Apia seats conveniently or to offer joint fares end-to-end, which limits traffic volumes.

We worked with Hawaiian Airlines and Polynesian Airlines to create convenient connecting service beyond PPG to APW, where Poly has its maintenance base and can operate after dark. That project was slowed by management turnover at both carriers but appeared to be moving forward when ASG gave instructions to stop the effort.

Samoa Air

Samoa Air, based in Apia, in March 2013 received US authority for service to Pago Pago and a rare emergency exemption for Cabotage service on routes between PPG and the Manu'a Islands. The Cabotage exemption was useless to Samoa Air, however, because it was limited to medical emergency services only and could last no more than thirty days.

Samoa Air quickly realized that the terms of the exemption made Manu'a service uneconomic. It started international service to PPG with a 9-passenger BN2 aircraft variously from Savai'i Maota Airport (MXS) and Apia Faleolo and Fagali'i, but soon suspended PPG operations. Samoa Air moved the BN2 aircraft to Tonga and then sold it.

Samoa Air CEO Chris Langton publicly expressed the intent to resume PPG service with 9-passenger Cessna Caravan aircraft but the airline is now out of business. The Caravan is a low-cost aircraft but, with a single engine, would not not be well suited to over-water operations. Samoa Air has ceased operations.

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4. *Neighboring Pacific Islands beyond Samoa*

Apart from Samoa, the important island population centers are Tonga [population 100,000; 557 miles to the capital city, Nuku'alofa (TBU), 364 miles to the northern city of Vava'u-(VAV)] and Fiji [population 850,000; 822 miles to the major international airport at Nadi-(NAN); 757 miles to the capital city, Suva (SUV)]. Farther off are Tahiti (1,420 miles to Papeete-PPT; population 230,000) and the Cook Islands (860 miles to Rarotonga-RAR; population 15,000). Niue (331 miles to IUE; population about 1,200) has been mentioned as a possible destination for Inter Island Airways.

Each of these countries or territories has a different economy, ranging from mining and agriculture to garment assembly. Each also derives a meaningful portion of GDP from tourism, which is well established and brings visitors from Australia, New Zealand, the US and, particularly for Fiji, from Asia.

There are substantial differences in their economic orientation, with American Samoa having close ties to the US and a US Dollar denominated economy. Tonga is of interest, despite its New Zealand ties, because it is relatively close and a growing number of Tongans work in American Samoa.

Tonga is a constitutional monarchy and member of the British Commonwealth. It never completely lost independent governance in the colonial period of the 18th, 19th and 20th centuries, though it was a British Protectorate until 1975. Tonga has its own currency and an important economic relationship with New Zealand resulting from its relative proximity to Auckland, just over 1200 miles from Nuku'alofa.

Fiji became an independent republic in 1970 after more than a century as a British colony but has experienced considerable political instability. Its currency is the Fijian Dollar but Fiji maintains significant ties to Australia and New Zealand as an outgrowth of long-time membership in the British Commonwealth.

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Tahiti, as the center of French Polynesia, is of course economically tied to France, which has helped develop the tourism industry. It is by far the wealthiest of the five island areas with Per Capita GDP more than twice that of American Samoa and several times greater Per Capita GDP than Fiji, the Cook Islands or Tonga. The Cook Islands have a close relationship with New Zealand and use the New Zealand Dollar.

The distances, divergent population sizes and different economic spheres limit American Samoa's affinity with these neighbors. The geographic proximity is nonetheless relatively close in the long reaches of the South Pacific. The cultures and histories are similar, which might allow these communities to improve economic ties. Air transportation is difficult due to long distances, limited populations and modest per capita incomes.

Regional jet and turboprop aircraft of 30 to 50 seats would be suitable for missions connecting Pago Pago to regional destinations. As Mr. Barney Sene has noted, worldwide demand for these smaller RJs has declined sharply in the last few years, making them readily available at low lease rates. A well-managed airline might find ways to bring services to these neighboring communities although significant political and financial help would likely be needed.

As a case in point, Air Rarotonga in the Cook Islands carries over 70,000 passengers a year in small turboprop aircraft within the Cooks and to and from French Polynesia. Such an operation could provide tangible benefits for American Samoa. Polynesian Airlines has mentioned the possibility of small RJ service between its Apia Faleolo Airport base and Fiji or Tonga.

Inter Island Airways (Fiji) Limited plans to start Fiji domestic service and could eventually operate flights between Fiji and American Samoa. The Fiji domestic startup date as of August 1, 2014 is shown on the airline's website as mid-November 2014.

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RealTonga

Air service among the islands of Tonga was operated from 2004 until early 2013 by New Zealand-based Air Chathams with a variety of older piston and turboprop aircraft. Effective in March, Air Chathams discontinued Tonga operations of its Chathams Pacific unit and the government-sponsored airline REAL Tonga started up on short notice.

We contacted RealTonga, and set up a meeting with the CEO for American Samoa's DOC Director. That meeting led to discussion of Tonga-American Samoa charter operations to test the market. RealTonga's aircraft are not suitable for the length of the overwater routes and of course the airline faced all the normal startup challenges.

After a few months, the new airline showed flights on its website with a 15-seat Chinese Y-12 Panda aircraft, a 60-seat Chinese MA60 aircraft (a gift from the government of China) and a 9-seat BN2 aircraft (probably operated by Samoa Air). The Panda and the BN2 are too slow for Vava'u-Pago Pago services and have no lavatories.

New Zealand authorities expressed great concern about RealTonga's Chinese MA60 turboprop aircraft, which started service between TBU and Vava'u VAV. The MA-60 is not certified by the FAA and has a spotty safety record in Asia. A lot of technical issues would need resolution before RealTonga could operate to PPG and the aircraft would present more difficulties.

Fiji Airways

Fiji Airways (FJ) has acquired advanced widebody A330 aircraft to replace older and larger B747s and increase service. Its regional subsidiary Pacific Sun operates large ATR turboprop aircraft. We contacted FJ about possible Suva (SUV) service to PPG with turboprop aircraft or extension of its Suva-Nuku'alofa Tonga flights to serve the TBU-PPG market. Fiji Airways remains interested in the market and is open to further discussions.

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Inter Island Airways (American Samoa) and Inter Island Airways (Fiji)

Pago Pago-based Inter Island Airways (American Samoa), Inc. is owned and operated by the Sene Family with Mr. Alex Sene, Jr. as President. Mr. Barney Sene is Executive Vice President of Inter Island Airways, Inc., President & CEO of Aviana Airways Corporation, based in Las Vegas; President & CEO of Inter Island Airways (Fiji) Limited and President & CEO of Blue Micronesia Airlines, based in Guam. Pago Pago-based Inter Island Airways (American Samoa) and Suva-based Inter Island Airways (Fiji) are separate, private independent companies.

Inter Island Airways (American Samoa) on its website mentions “exploring” Dornier 328 service to Tonga and Niue in December 2014. As Inter Island Airways has not been flying the DO 328 aircraft for revenue service, those plans appear unlikely to be activated this year.

Inter Island Airways (Fiji) is a company organized to start a South Pacific regional airline based in Suva, Fiji. Mr. Barney Sene has also been centrally involved in the development of Manu’a Airways (discussed above). Both Inter Island Airways (American Samoa) and Inter Island Airways (Fiji) will use the brand name “Inter Island Airways”.

Inter Island Airways (Fiji) on its website as of July 2014 shows a mid-November 2014 start for service on Fiji domestic routes with future plans for South Pacific regional jet routes connecting Fiji with American Samoa, Tuvalu, Wallis & Futuna, Samoa, Niue and Tonga. The Fiji domestic operations are planned with the same aircraft type (the Dornier 228 turboprop) flown in American Samoa.

Mr. Sene has noted the opportunity represented by the worldwide decline in demand for 30 to 50-seat regional jet (RJ) aircraft. Since consolidation, the very large hub operators American, Delta and United Airlines now consider those RJs too small to be economic for as many connecting operations as they flew in the past. He states that small RJ services

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can be profitable on undeveloped routes such as SUV-PPG, NAN-PPG or PPG-TBU. Plans for Inter Island Airways (Fiji) include the use of 50-seat Bombardier CRJ regional jets.

Mr. Sene's website www.avianaair.com shows the June 2014 formation of an additional company, Blue Micronesia Airlines, Inc., intending to develop another startup airline to be based in Guam.

5. New Zealand and Australia

At the center of PPG's need and opportunity for service to New Zealand and Australia is the competition with Apia APW described above. Apia is served from Auckland, Brisbane and Sydney. Data is not available for travel volumes between American Samoa and those destinations because passengers are unable to buy through tickets or, indeed, any automated tickets sold by travel agents through the Global Distribution Systems, which are the industry's most robust data providers.

Air New Zealand (NZ) is the flag carrier of New Zealand and has an extensive Pacific network, including Auckland AKL service to Apia and Nuku'alofa (TBU). ASM has held discussions with ANZ, which showed some interest in learning more about potential opportunities in American Samoa.

Air New Zealand's most likely route for service to PPG would be extension of one of its six weekly Auckland AKL-Nuku'alofa TBU flights to attract local passengers between Tonga and American Samoa, discussed in the following section, as well as AKL-PPG through passengers. NZ may also be receptive to working on connecting arrangements at Apia to improve convenience for passengers to and from American Samoa. That could and should include attempts to make PPG visible on travel agency reservations systems.

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Although American Samoa's economic relationships focus on the US, there is interest within the New Zealand market for PPG as a vacation destination. The AS Visitors Bureau has developed tour packages for inclusion in Air New Zealand's holiday program.

Virgin Australia Airlines (DJ) is the operating partner with the Samoan government in Virgin Samoa (DJ*), which flies a B737-800 aircraft between Apia and Auckland, Brisbane and Sydney. That relationship makes Virgin an unlikely candidate for Pago Pago service but Virgin should be receptive to working with the local airlines on connecting arrangements through APW to PPG. That could improve convenience for American Samoa residents and visitors and potentially promote tourism and deliver more passengers to Virgin, which could sell side trips to American Samoa.

Virgin Australia and Air New Zealand have a revenue-sharing deal on their Tasman routes that was ratified a couple of years ago and turned loss-making routes into very profitable operations. The two carriers are now planning to expand the joint venture to Pacific Island routes. Jetstar, the low-cost affiliate of Australia's Qantas also operates in the New Zealand market with a fleet of nine A320 aircraft based in Auckland and flown with New Zealand crew. Jetstar is reported to be interested in the Pacific island markets, which it sees as more lucrative than New Zealand domestic routes.

Asia-Pacific Developments

American Samoa in 2012 was in contact with government transport officials in both Indonesia and Taiwan. Both expressed some interest in possible air service to Pago Pago but the challenges make it impractical.

Garuda Indonesia, the country's flag carrier, has been reborn after a 2007 crash led to a two-year ban on service to the EU. Garuda was reinstated by the EU in 2009 and has been growing aggressively with expansion of both widebody and narrowbody fleets. The B737-800 aircraft is Garuda's primary narrowbody aircraft type, though it has on order A320NEO

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aircraft, a new, more efficient design planned to enter service in 2015 or later at Garuda's low-cost subsidiary Citilink.

Garuda could originate service from either the nation's capital Jakarta (JKT) or Bali's capital Denpasar (DPS). The distances of 5000 miles or more would require a one-stop routing via Northern Australia (probably Cairns-CNS) or Papua New Guinea (Port Moresby-POM). With no history or commonality of interest, neither would generate a commercial volume of traffic.

Taiwan's two flag carriers are China Airlines and Eva Air, the subsidiary of a huge multi-modal transportation conglomerate. China Airlines operates B737-800 aircraft and has more on order. Taiwan is more than 5000 miles from PPG and, like Indonesia, lacks a compelling one-stop routing.

We have reviewed these possibilities but concluded that none would be feasible. Traffic is too thin and distances are much too far. We have not contacted any of the large Asian airlines.

6. *Changes in Federal Laws or Regulations*

American Samoa, with less than 0.02% of the population of the United States and thousands of miles removed from the country's population centers and major transportation corridors, should not be regulated as though it were an important US aviation market. AS needs air service and the US ban on Cabotage sales (transportation of domestic passengers or cargo) by foreign airlines should not apply. But it does.

Granting a foreign operator whatever rights it needs to serve PPG certainly makes sense. Proponents of the Cabotage rules representing US airlines and their labor groups will not argue that granting AS Cabotage would cause economic harm to any US entity, with the exception of Hawaiian Airlines. They will argue instead that any precedent would threaten

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a progression of steps, opening another small and remote market followed by a slightly more meaningful market until eventually Singapore Airlines, Air New Zealand and other world-class Pacific airlines are flying in the lucrative Honolulu-Los Angeles market.

The colorful terms used in Washington DC for the fear of creeping incremental threats are “the slippery slope” and “the camel’s nose under the tent”. The struggle against such arguments cannot be easy or quick but the methods are straightforward. American Samoa will need to spend considerable energy to attempt to educate the decision makers in Congress and the Executive Agencies about the need based on:

- 1) The severe inadequacy of the current service and the weight of the burden of high monopoly fares,
- 2) The need for relief based on the Territory’s economic disadvantages,
- 3) How far, measured in distance and travel time, PPG really is from the Mainland,
- 4) How small any adverse impact would be on the US airline industry,
- 5) The positive impact projected for American Samoa tourism and commerce,
- 6) The strengthening of the Samoan community possible with lower-cost and more convenient travel to and from Hawaii and the Mainland, and
- 7) Interest by a foreign airline in operating from its home country through PPG to HNL or LAX if it could carry domestic passengers along with through passengers,

6.1. Cabotage Exceptions

Common exceptions to the Cabotage restrictions include authorization for foreign airlines flying a sector like PPG-HNL to pick up passengers at one domestic point and transport them to another domestic point if their travel is from a foreign point and they are either

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stopover or connecting passengers. These stopover rights are significant in Honolulu or New York but in practical terms would not generate enough Pago Pago stopover passengers to make a significant difference for the airline if that were the only relaxation of the ban.

Air cargo markets, dominated by giant worldwide consolidators UPS and FedEx, are less jealously guarded than are passenger markets, though straightforward Cabotage exemptions are still not granted. Many “Open Skies” agreements allow carriers to operate international cargo flights without beginning or terminating in their own countries. These 7th Freedom traffic rights are sometimes extended also to passenger charter operations but not to scheduled passenger services.

6.2. Foreign Air Cargo Transfer Rights (Alaska Cargo Provision)

As discussed above, foreign airlines typically are not allowed to carry passengers or freight between any two US domestic points, with some exceptions for online connections. Anchorage and Fairbanks, Alaska are beneficiaries of the Stevens Amendment, a federal law passed in 2004.

The Stevens Amendment (Alaska Cargo Provision) allows non-US airlines to carry international cargo between US points as part of interline transportation if the connection occurs in Alaska. These rights, small as they are, were opposed vigorously by supporters of the principles of Cabotage and became law only because of the personal power of the late Senator Stevens. They have led to substantial air cargo growth for the Alaska airports but remain unlawful for Hawaii or any of the island territories of the US.

Apart from being controversial and narrowly confined to Alaska, similar provisions would not be helpful for American Samoa. Alaska has a geographic advantage, being conveniently located for technical stops between Asia and the lower 48 states on routes

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too long for heavy freighter aircraft to operate nonstop. Pago Pago had a similar advantage years ago when many commercial aircraft needed refueling en route from the Mainland or even Hawaii to New Zealand and Australia, but advancing aircraft technology has eliminated that advantage.

The Stevens Amendment helps cargo operators to distribute their loads efficiently between multiple Asian gateways and multiple US gateway cities by working together. The value is generated by frequent flights operating through Alaska on a regular basis. Pago Pago is not located advantageously on world air routes to take advantage of a similar exception to the Cabotage restrictions even if it were possible, which is extremely unlikely.

6.3. *Air Service for Small and Rural Communities Access*

The Essential Air Service Program has been narrowed in recent years and no longer applies to PPG. Small Community Air Service Development Program Grants continue to receive funding and American Samoa in 2010 received a grant for the purchase of ground equipment to be used at the Manu'a airports. The grant continued through the end of 2013. A new grant application should be considered for development of a transit facility at Pago Pago International Airport, to assist Inter Island Airways with development of GDS reservations system functionality or for automation to facilitate immigration clearance.

6.4. *Codeshare*

Codesharing is the wide spread airline industry practice of advertising and selling seats operated by one carrier using the identity and two-letter code of another carrier. That arrangement enables the non-operating carrier to sell seats on the route and also facilitates the sale of seats on its own flights to passengers on connecting itineraries.

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The US and a number of other countries, including Australia and New Zealand, have enabled their airlines to establish international alliances (Star Alliance, SkyTeam and **oneworld**), which have become an important factor in route planning and network development. Most codesharing sales involve alliance partners, though Hawaiian Airlines and Alaska Airlines are notable exceptions, participating in code sharing and other interline marketing programs without alliance memberships.

Among the other large US airlines operating at Honolulu, United Airlines is a partner in Star Alliance, Delta Air Lines in SkyTeam and American Airlines in **oneworld**.

The USDOT has strengthened the alliances by granting anti-trust immunity (ATI) for Joint Ventures (JVs) in specified regions. There are three immunized JVs for US-South Pacific services. One includes United and Air New Zealand, the second includes American and Qantas and the third includes Delta and the Virgin Pacific Group.

ATI allows JV partners to decide jointly what routes to fly, what level of capacity to operate and what fares and marketing programs to offer. It even allows the partners to decide together what flights and what aircraft each airline should operate on each route. The carriers then share the financial risks and returns from the markets included in their JV.

Thus, a flight such as AKL-PPG-HNL, could be a joint venture of United and Air New Zealand, which would code share, offer the passenger a choice of frequent flyer miles on UA or NZ and jointly offer corporate travel contracts. To the extent possible, UA and NZ would give passengers buying tickets on one the same benefits as passengers ticketed on the other. UA and NZ would share revenues and costs.

If the flight were operated on UA aircraft with UA crews, the airlines could sell local PPG-HNL seats as well as AKL-PPG and AKL-HNL. Although codesharing within a JV seems to be a logical vehicle for a Cabotage exception, the law and the regulators explicitly will not allow local sales for the PPG-HNL sector if the aircraft is operated by Air New Zealand.

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7. American Samoa Airports

The ASG's Department of Port Administration (DPA) operates the Airports (Fitiuta and Ofu as well as PPG) and the Seaport. As a Department, it is subject to ASG budgetary control with any surplus or deficit flowing to the General Fund.

Some people have advocated conversion of the Department to an independent Authority, separate from the ASG but administered by a commission appointed by the Governor and confirmed by the Fono. They argue that independence would protect an Authority from diversion of revenues to other ASG purposes and would increase its capacity to sell bonds for needed capital projects.

Reviewing the budget of the Department of Port Administration has not been part of this study and we do not have access to details of how revenues flow from commercial real estate controlled by the DPA's Airports Division. The advantages of converting to an Authority are not obvious.

Aviation-related revenues certainly appear insufficient to cover operations and maintenance. Estimated PPG landing fee revenues are about \$300 thousand per year – roughly \$100 thousand from the small turboprop flights of Inter Island Airways and Polynesian Airlines at \$20 per landing, \$150 thousand from Hawaiian Airlines and \$35 thousand from Asia Pacific Airlines, which operates a weekly B727 freighter flight.

Passenger Facility Charges (PFCs) paid per passenger departure add about \$300 thousand with their use restricted to projects approved by FAA. Space rents are low; parking and concessions are not lucrative. The Airports Division's budget also supports operations and maintenance expenses for Fitiuta Airport and Ofu Airport, which generate very little operating revenue

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A variety of independent authorities operate a number of airports and seaports in the United States, with commissioners appointed or sometimes elected within the local jurisdiction. The Chicago Airports, on the other hand, and many others are operated as departments of city government.

Pago Pago International Airport

Pago Pago International Airport is the gateway to American Samoa and by far the largest of the three airports in the Territory. The terminal needs improvement in appearance and functional infrastructure. Passengers should be offered a good first impression on arrival and a good last impression on departure. The operating environment should be improved for Hawaiian Airlines or other jet aircraft operators potentially interested in PPG service.

Ideas for replacement or significant re-building of the terminal at Pago Pago International Airport terminal similarly will be hard to justify. With a current schedule of just 120 annual arrivals of large passenger jet aircraft, a major capital project may not be needed.

The Airport clearly needs repair and improvement but any project must be cost effective. The inside of the terminal is unattractive and, for the arrivals and departures of Hawaiian Airlines, it's very crowded. The cost of improvements will be passed along to Hawaiian and other airlines using the airport. The airlines therefore, particularly Hawaiian, should be consulted about their needs and their willingness to pay increased fees for improvements.

Hawaiian Airlines reports that the layout of the ramp and passenger pathways near the terminal slows delivery of bags and that lighting needs improvement. Passengers must clear Immigration processing before retrieving their checked baggage from the carousel in the arrivals hall.

When 250 passengers arrive, their bags sometimes fill the carousel to a choke point before they get through to claim them and no more bags can go on the belt until some are

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removed. We have suggested to airport management that personnel present in the hall might help make room on the carousel by moving some bags to the floor nearby where passengers will find them.

7.1. *Manu’a Airports*

Fitiuta Airport (FTI) serves Ta’u and Ofu Airport (OFU) serves Ofu and Olosega. Inter Island Airways Inc. operates regular PPG-FTI flights. The Manu’a Islands rely on air links to Tutuila but OFU currently has no regular air service. As discussed above plans have been repeatedly delayed for Inter Island Airways to operate PPG-OFU and OFU-FTI routes using the brand Manu’a Airways and the aircraft transferred from the ASG.

8. *Immigration*

American Samoa is the only US possession that has its own Immigration and Customs regulations and handles its own arrivals processing. The authority for that special treatment comes from American Samoa’s status as an Unorganized, Unincorporated US Territory in which its natural born citizens are classified as “US nationals” and not “US citizens”. Under this arrangement, American Samoa has great leverage with regards to issuing entry visas and permits, setting immigration policies, and being able to open (or close) the door on who is allowed to enter the Territory.

Airline passenger traffic is limited by the visa and permit requirements imposed by American Samoa’s immigration and visitor policies and by the sometimes slow processing of passengers at Pago Pago International Airport. Processing is a particular issue during the two or three days a week when Hawaiian’s large aircraft unload up to 250 passengers.

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The US Customs and Border Protection (CBP) agency has been working with airports and service providers on the development of technology to speed the passenger clearance process and improve reliability and completeness of visitor data capture. We have asked CBP for information about how it might assist American Samoa in streamlining passenger clearance. CBP can provide advisory service and the ASG can seek a Federal grant for badly needed automation.

American Samoa has no visa requirements for US citizens and nationals and similarly admits freely citizens of a number of other countries (Australia, New Zealand, Canada and most of Western Europe). American Samoa does require that visitors obtain visas in advance if they are citizens of Samoa or a number of other countries, including Mexico, China, Taiwan, the Philippines and Indonesia. Even Green Card holders residing in the US who are citizens of those countries are not exempted from the visa requirements, though American Samoa admits visitors who have visas for entry to the US.

The recommendations accompanying this report advocate rapid and significant liberalization of entry restrictions. Entry permits for citizens of Samoa are the greatest barrier to increasing air traffic and appear to be the most easily relaxed. The recommendations also note the advanced technology

Further development of the Pago Pago-Apia market will be good for PPG Airport as well as for the convenience of the residents of both islands. Reducing the cost and making visa acquisition easier for passengers in both directions would likely boost the market volumes. From an airline point of view, the immigration process and visa requirements are viewed as negative factors.

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9. Security

The US Transportation Security Administration handles passenger security screening at PPG for flights to Honolulu but small-aircraft flights to Apia do not require screening. Hawaiian's two or three weekly HNL flights often board 250 or more passengers. Although the screening area and equipment and the TSA staffing appear to be adequate for the volume, the screening queue sometimes gets backed up when only one passenger or bag scanning line is operating. Simple changes in line management and screening procedures could improve throughput and avoid screening delays.

Passengers are screened at departure by TSA and are screened again at HNL, where they are treated as international arrivals. Changing the security screening protocols is probably not feasible without a change in the status of American Samoa as an Unorganized Unincorporated Territory.

10. Tourism Development

The ASG has identified tourism as a priority growth sector for the Territory. Visitor volumes are limited by the small inventory of hotel rooms and the shortage of other tourism infrastructure as well as air service deficiencies. Most of the passengers on Hawaiian Airlines are traveling for government or private sector business or are visiting friends and relatives. Commercial tourists are few.

The attractions of American Samoa make it a niche market for eco-tourists and others seeking pristine natural beauty and rugged outdoors experiences. The National Parks and NOAA Marine Sanctuaries are wonderful attractions but bring in only modest visitor volumes.

American Samoa's location is remote from the masses of sun-seeking North American beach tourists, who can more conveniently visit Mexico, the Caribbean or Hawaii, and

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Asian tourists, who flock to the more convenient resorts of Guam and the Commonwealth of the Northern Mariana Islands. Tourists from Australia and New Zealand are much closer but come from much smaller populations. They first visit Samoa, which has been developing and promoting resorts for many years and has heavily supported international air service. Tourism promotion is a slow process in the absence of a major resort development.

The American Samoa Visitors Bureau has been promoting the Territory as a destination for tourists from the US and as a side trip for tourists from Australia and New Zealand visiting Samoa. It has helped increase the number of cruise ship calls in Pago Pago and has worked on the development and promotion of activities for tourists and cruise ship passengers. The cruise ships so far have not offered Pago Pago as a port of embarkation or debarkation.

Tourists by air are harder to attract but stay longer. They contribute more to the local economy but require more destination support. They need hotels, restaurants, activities and entertainment. For now, gradual increases in tourist volumes are practical and will help support improvements in air service and development of infrastructure.

Near term opportunities for improvement of tourism infrastructure include the following:

- Urgently seek a developer for the Rainmaker Hotel site
- Explore replacement of cable car; approximate cost would be \$8-10M
- Marina needs to be commercialized; seek a private contractor to undertake this project
- Develop other tourism elements such as:
 - Glass bottom boat tours
 - Access to the Sanctuary
 - Diving (reefs, wildlife)
 - National park and trails

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- Increase the number restaurants and B & Bs.

The ASG should work with private businesses and villages to develop funding for tourism investments from both private and government sources. Villages can also support new ecotourism projects.

At the World Routes Forum in October 2013, we introduced the American Samoa Visitors Bureau to Virgin Australia, which could sell American Samoa tours via its Virgin Samoa services in Apia. Earlier we introduced the ASVB to Hawaiian Airlines for development of tour packages. These programs have the advantage of gradual development that is manageable for the limited tourism infrastructure of the Territory.

11. Tuna Canneries

Revival of American Samoa's tuna canning business was described in the Phase One Report. Tuna processing is flourishing and will generate increasing passenger and freight volumes for transportation by air. Further, the commercial activity generates demand for a variety of other services that have a multiplier effect throughout the local economy.

Hawaiian Airlines and freighter operator Pacific Cargo have carried a preponderance of southbound cargo with much less volume going north. So far, their Northbound capacity is ample but as Samoa Tuna (subsidiary of Seattle-based tuna giant Trimarine Group) grows toward full production, cargo revenues will increase and additional capacity may be needed.

12. Passenger Survey – Pago Pago International Airport

With guidance from the American Samoa Department of Commerce, we undertook a passenger survey at Pago Pago International Airport between June 28 and July 10, 2013.

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Survey representatives asked arriving and departing passengers about their travel, including origin and destination, connections, fares and other details as well as the purpose of trip and where they live.

The survey captured data from 1143 respondents representing 2344 passengers, including those traveling together.

Hawaiian Airlines carried the largest number of passengers (829) represented in the survey, due in part to the survey period being in the peak summer season when HA operates three weekly flights. More than 10% of Hawaiian's passengers indicated that they were traveling to or from Apia and about 20% were traveling beyond Honolulu. That share may be understated by responses of passengers who identified Honolulu for travel that included overnight stays en route to or from Asia or the Mainland.

Inter Island Airways was second largest with 717 passengers and Polynesian Airlines third with 465. Samoa Airlines had only 6 passengers in the survey and 327 were recorded as unidentified airline. These numbers may reflect the response rate as well as total carriage because generally Polynesian Airlines carries more passengers than Inter Island Airways. In statistical terms, 2,344 passengers represents a robust overall sample size.

As expected, Apia (combining Fagali'i and Faleolo) was the most travelled destination with Honolulu second. Ta'u Fitiuta Airport was third largest and Savai'i Maota Airport was next, including many passengers who indicated their trip purpose was religious in nature. A large Maota component said vacation was their purpose, probably traveling to resorts on Samoa's Big Island. Many of the Maota passengers may have been using Faleolo airport and the nearby Savai'i ferry service as Samoa Air had the only direct air service (since discontinued).

New Zealand was a respectable fifth place but Australia showed very little activity, just 17 passengers. The Fiji and Tonga numbers were unexpectedly low with just 25 and 19

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passengers respectively. Those results call into question the existence of meaningful American Samoa traffic flows for Fiji and Tonga. No passengers reported Asian itineraries via either Hawaii or Fiji.

The U.S. mainland traffic showed the expected dominance of California but with measurable Alaska traffic identified as military or business (which could relate to fishing) and a strong flow to Utah, identified largely as religious. A considerable share of traffic to and from interior US points is identified as military travel.

The emergence of the New Zealand flow gives some indication of a potential market that exists even in the face of high fares, poor visibility and difficult connectivity. The Survey results are very useful for discussions with airlines willing to consider new PPG service.

Airline Contacts and Industry Conferences

Planning staffs at many of the large airlines devote a lot of time and effort to communication with representatives of airports and communities. As discussed above, airline contacts form a vital part of air service development efforts. We have been in touch with a number of airlines on behalf of American Samoa by phone and email and have met in person with several.

The meeting with United Airlines was an in-depth discussion at the carrier's Chicago headquarters. Other meetings took place at industry conferences set up for that specific purpose, the March Network Conference and Airport Council International-NA's JumpStart Conference in June 2013.

The largest conference of this type is the annual World Route Development Conference, operated by ASM's corporate affiliate. In its Best and Final Offer for this project, ASM agreed to provide a display stand and registration for American Samoa. Meetings at that October 5-8 event with airlines, airports and tourism authorities provided an opportunity

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for the American Samoa representatives to gain wider market exposure, gather industry intelligence and advance their air service development agenda.

Phase Two Meetings

Meetings in Honolulu, May 12-14, 2014 (ASM Consultants along with DOC Deputy Director Peau)

- Met with Mr. Robert Lamansky, Schedules VP for Hawaiian Airlines, to confirm availability of aircraft time for a third weekly trip and HA's interest in Connecting with Polynesian Airlines.
- Met with Mr. Gus Hannemann, Director of ASG's Hawaii Office, to discuss the advantages of getting Hawaiian Airlines interested in working with Polynesian Airlines on connections at Pago Pago International Airport.
- Met with Mr. Keniseli Lafaele, Director of the American Samoa Department of Commerce and Mr. Iulogologo Joseph Pereira, Executive Assistant to Governor Governor Lolo Matalasi Moliga. The Governor was scheduled to attend the meeting but was unable to be there.
- Multiple meetings for Dep. Director Peau and ASM's Sandy Rederer and Mike St. Laurent to review presentation for Governor, progress of study and plans for completion along with broad discussion of substantive issues of air service and tourism development.

World Routes Forum in Las Vegas, October 4-8, 2013

- Meetings with airlines, airports and tourism officials including Hawaiian Airlines, Alaska Airlines, United Airlines, Sun Country Airlines, Southwest Airlines, Silver Airways, SeaPort Airlines, Allegiant Air, Virgin Australia, Air New Zealand, Guam International Airport, Brisbane Airport, ASUR (San Juan PR Airport) and Hawaii Tourism Authority. Attended by eight delegates from American Samoa.

Washington, October 22, 2013

- Mr. Victor Salazar in Congressman Eni Faleomavaega's office

Honolulu, June 27, 2013

- Met with Paul Casey, president of Hawaii's Islandair, about possible support for PPG turboprop operators

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Pago Pago June 18-26, 2013

- June 18 Lelei Peau and Milo Niuelua, DOC
- June 18 Airport Manager David Fuimaona and Deputy Chris Soti
- June 18 Brett Butler, Star-Kist Cannery manager
- June 18 Gene Brighthouse, NOAA Sanctuary Superintendent
- June 19 ASG Associate Attorney General Vincent Kruse about Immigration
- June 19 Chamber of Commerce director David Robinson about business and community concerns
- June 19 Inter Island Airways President Alex Sene, Jr. and operations head Denis Sene
- June 20 Visitors Bureau David Vaeafe and Chairman Roy Hall
- June 20 William Sword, Manager of Pacific Energy
- June 21 Mitzi Semo, Hawaiian Airlines station manager
- June 22 Chris Langton, CEO of Samoa Air
- June 22 Jason Pritchard, airport ground services operator and travel agent
- June 24 Governor Moliga, Lt Governor Mauga and staff
- June 25 DOC Director Lafaele
- June 25 Met by phone with Polynesian Airlines CEO Fatu Tielu and DOC's Lelei Peau
- June 25 Port Administration Director Claire Poumele and Lelei Peau
- June 26 Met by phone with DOC's Lelei Peau and Barney Sene, Executive VP of Inter Island Airways Inc.
- June 26 With David Vaeafe of Visitors Bureau on international aviation conference World Routes Forum

Washington DC, June 10, 2013

- Mr. Victor Salazar in Congressman Faleomavaega's office

JumpStart Conference in Atlanta, June 5-6, 2013

- Meetings with Southwest Airlines, Alaska Airlines, SeaPort Airlines, Silver Airlines and Boutique Air

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Network Conference in San Antonio, March 4-5, 2013

- Meetings with Hawaiian Airlines, Boutique Air, Cape Air, Delta Air Lines, United Airlines and Alaska Airlines.

Chicago, June 4, 2013

- Meeting at United Airlines Headquarters

Glossary

Type	Code	Name	Country
Airport	AKL	Auckland	New Zealand
	ANC	Anchorage	US
	APW	Apia	Samoa
	ATL	Atlanta	US
	BLI	Bellingham	US
	BNE	Brisbane	Australia
	BOI	Boise	US
	CNS	Cairns	Australia
	CTS	Sapporo	Japan
	CXI	Kiritimati	Kiribati/Christmas Island
	DEN	Denver	US
	DFW	Dallas	US
	DPS	Denpasar	Bali
	EUG	Eugene	US
	EWB	New York – Newark	US
	FGI	Apia-Fagali'i	Samoa
	FUK	Fukuoka	Japan
	GEG	Spokane	US
	GUM	Guam	US
	HND	Tokyo – Haneda	Japan
	HNL	Honolulu	US
	IAD	Washington	US
	IAH	Houston	US
	ICN	Seoul	South Korea

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Type	Code	Name	Country
	JFK	New York – JFK	US
	JKT	Jakarta	Indonesia
	KIX	Osaka	Japan
	KOA	Keahole/Kona	US
	LAS	Las Vegas	US
	LAX	Los Angeles	US
	MAJ	Majuro	Marshall Islands
	MEL	Melbourne	Australia
	MNL	Manila	Philippines
	NAN	Nadi	Fiji
	NRT	Tokyo Narita	Japan
Airport	OAK	Oakland	US
	ORD	Chicago	US
	PDX	Portland	US
	PHX	Phoenix	US
	PPG	Pago Pago	US
	PPT	Papeete	Tahiti
	PVG	Shanghai	China
	SAN	San Diego	US
	SEA	Seattle	US
	SFO	San Francisco	US
	SJC	San Jose	US
	SLC	Salt Lake City	US
	SMF	Sacramento	US
	SYD	Sydney	Australia
	TPE	Taipei	Taiwan
	YYC	Calgary	US
Airline	ANZ or NZ	Air New Zealand	New Zealand
	AQ	Aloha Airlines	US
	AS	Alaska Airlines	US
	CO	Continental Airlines	US
	DL	Delta	US
	HA	Hawaiian Airlines	US
	PAO	Polynesian Airlines	Samoa
	UA	United Airlines	US
Other	PLF	Passenger Load Factor	

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Type	Code	Name	Country
	JV	Joint Venture	

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